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# DOE's EMERGENCY PREPAREDNESS BUDGET

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# HEARINGS

BEFORE THE

SUBCOMMITTEE ON
FOSSIL AND SYNTHETIC FUELS

OF THE

COMMITTEE ON
ENERGY AND COMMERCE
HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

MARCH 9 AND 10, 1982

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# DOE'S EMERGENCY PREPAREDNESS BUDGET

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## TUESDAY, MARCH 9, 1982

House of Representatives,
Committee on Energy and Commerce,
Subcommittee on Fossil and Synthetic Fuels,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 10 a.m., in room 2322, Rayburn House Office Building, Hon. Philip R. Sharp (chairman) presiding.

Mr. **Sharp**. The subcommittee will come to order. The Subcommittee on Fossil and Synthetic Fuels meets today in the first of two hearings to determine the need for the continued involvement of the Department of Energy in domestic emergency planning, energy information collection, and international energy liaison.

I am concerned that, as a result of the proposed decrease in budgetary support for the Department's Office of Emergency Preparedness, Office of International Affairs, and Energy Information Administration, the United States will be hampered in its ability to respond to severe energy shortages and to cooperate with its allies on matters of mutual energy security.

Although present world oil market conditions appear to augur favorably for the consuming nations of the world over the short term, continuing political instability in the Mideast makes it essential for the United States to carry forth and expand upon efforts to prepare for energy-related crises.

Given the turmoil which characterizes the world's petroleum "bread basket" and the tenuous oil lifeline which supports our economic well-being, it would be more than unfortunate if the current surplus of petroleum supplies lulls the United States into a false sense of energy security. We have paid the price of being caught unawares in the past; we should not allow ourselves to pay that price again.

Since the onset of the Arab oil embargo of 1973–74 the Congress has recognized the importance of energy emergency preparedness. In response to the embargo, the Congress created the Federal Energy Office, later the Federal Energy Administration, and provided the organization with broad powers to plan, develop, and implement energy contingency plans.

Acknowledging that a comprehensive emergency preparedness program could not exist without reliable energy information, the Congress, in the Federal Energy Administration Act of 1974, created an energy data program integrally related to the provision of information for use in energy emergencies and the assessment of market trends during noncrisis times.

Finally, in recognition of the fact that domestic contingency planning and international energy cooperation are both components of the seamless web of any comprehensive U.S. emergency preparedness effort, the Congress included within the DOE Organization Act of 1977 the requirement that the Department assume a role in the setting of international energy policy.

The act stipulates that the Department should perform at the Assistant Secretary level a variety of tasks involving the integration of domestic and foreign policy relating to energy. Not the least of these tasks has been the participation of the United States in the International Energy Agency, the most prominent existing forum for cooperation on energy emergency matters among those nations allied with the United States.

The administration's proposed budget for fiscal year 1983 has raised many eyebrows both in Congress and in the professional community which has dealt with emergency preparedness issues. To briefly summarize, the proposed budget includes: A 47-percent reduction in funding for emergency preparedness; a reduction of 30 percent for energy information; and a decline of 92 percent in funding for international affairs, reflecting a complete elimination of the Office along with the institutional expertise residing there.

Our witnesses today will discuss their recommendations for a program of sound emergency preparedness planning and will comment on the impact of the administration's policies on managing future energy emergencies should they arise.

This morning we are competing with the Clean Air markup of the Energy and Commerce Committee downstairs. And we are told several of the members will try from time to time to get up here to hear a portion of our testimony.

[Testimony resumes on p. 15.]

[The following staff memorandum was submitted:]

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U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON FOSSIL AND
SYNTHETIC FUELS
COMMITTEE ON ENERGY AND COMMERCE
WASHINGTON, D.C. 20515

March 5, 1982

MEMORANDUM

**TO:** Members, Subcommittee on Fossil and Synthetic Fuels

**FROM:** Subcommittee Staff

**SUBJECT:** Energy Emergency Preparedness

**HEARING:** March 9 and March 10, 1982

The Subcommittee on Fossil and Synthetic Fuels has scheduled two hearings to help determine the need for the continued involvement of the Department of Energy in domestic emergency preparedness, energy information collection and international energy liaison; the implementation of these programs in the past; and, the impact of the Administration's proposed budget cuts on the nation's ability to weather future energy emergencies. At issue is whether the currently "soft" oil market justifies the proposed reduction or elimination of emergency planning and support functions.

The hearings are scheduled for Tuesday, March 9, and Wednesday, March 10, 1982. The March 9 hearing will be held in Room 2322, Rayburn House Office Building and will commence at 10:00 a.m. The March 10 hearing will be held in Room B318 Rayburn and will commence at 10:00 a.m.

Witnesses

On March 9 there will be two panels of witnesses:

I. a) Director of the Energy and Minerals Division of the U.S. General Accounting Office
   b) Chairman of the Professional Audit Review Team (the independent auditing task force created by Congress to insure the reliability and non-bias of the Energy Information Administration)

   -- The members of this panel will discuss the results of on-going reviews which they have performed regarding the emergency preparedness activities of the U.S. Government.

II. a) The National Governor's Association
    b) A member of the National Petroleum Council's Committee on Emergency Preparedness
    c) Deputy Director of the Georgetown Center for Strategic and International Studies Project on Energy and National Security

-- The issues which this panel will discuss include the states' need for energy information, the NPC's recommendations for emergency planning and the findings of the recently-released CSIS study, The Critical Link: Energy and National Security.

On March 10, there will be three panels:

I. The Executive Director of the International Energy Agency

-- This witness will comment on recent world oil market trends, the likelihood of future severe disruptions, and the need for continued data collection, emergency planning and international energy liaison during non-crisis periods.

II. DOE's Assistant Secretary for Emergency Preparedness
DOE's Assistant Secretary for International Affairs
DOE's Administrator of the Energy Information Administration
State's Deputy Assistant Secretary for International Energy Policy

-- The members of this panel will present the rationale for the proposed cuts in energy emergency programs and how the Administration expects to perform these functions in the future.

III. A variety of former officials of the Departments of Energy and State.

-- This panel will examine the policy direction of these functions under the present Administration from both the perspective of their prior experience with the programs in previous Administrations as well as the perspective of their present positions in the petroleum industry, the academic world and private legal practice.

Background

Following the Arab oil embargo of 1973-74 there was a great deal of concern that the United States was not sufficiently prepared for similar energy emergencies. The coal strike of 1977 amplified the lack of a coherent, comprehensive contingency planning effort within the Federal government. As a result of the above occurrences the Congress included in various legislation authorities for preparing and implementing contingency plans to deal with disruptive energy-related episodes. The Department of Energy Organization Act of 1977 transferred the responsibility for carrying out these functions from the various predecessor agencies into the new Cabinet-level organization.

However, before the newly created Department had time to fully synthesize the numerous tasks assigned to it, the Iranian political upheaval of 1978-79 led to a new energy shortfall. For the third time in half a decade the United States was caught off guard.

## The Budget Request

The cuts proposed for the three program components of the Department's energy emergency planning effort total $33.7 million--0.3% of the DOE budget. The cuts are distributed in the following manner:

- cut the Emergency Preparedness budget by 47% -- from $10.2 million to $5.4 million, excluding the Strategic Petroleum Reserve;
- cut the Energy Information Administration by 30% -- from $78.9 million to $54.5 million.
- cut the International Affairs budget by 92% -- from $4.9 million to $0.4 million, eliminating the program.

## Emergency Preparedness

| | FY 1981 ACTUAL | FY 1982 ESTIMATE | FY 1983 REQUEST |
|---|---|---|---|
| Budget Authority ($000,000) | 12.9 | 10.2 | 5.4 |
| Staff Years | 107 | 94 | 72 |

The activities which are carried out by the Office of Environmental Protection, Safety and Emergency Preparedness relating to energy emergency planning include:

- o Analysis of SPR distribution procedures;
- o Study of financial and economic impacts of energy supply disruptions;
- o Planning for and conducting energy emergency tests and exercises;
- o Development of the Emergency Executive Reserve Program;
- o Assessment of vulnerability of the Naval Petroleum Reserve and the Strategic Petroleum Reserve;

- Development of plans (including Memorandum of Understanding with the Department of Defense) to implement the Defense Production Act requirements for ensuring the availability of energy supplies for defense needs;
- Establishment of facilities to coordinate communications and operations during energy emergencies;
- Support of U.S. involvement in the International Energy Agency (IEA).

The Administration budget request clearly states that it is their policy to allow the private sector to anticipate and prepare for disruptions in energy supplies. Further, the Administration assumes that market forces will be adequate as the mechanism for handling such disruptions. As a result, the focus of the Emergency Preparedness function will be shifted from past efforts to develop plans to mitigate the effects of these disruptions to a program which maximizes market response and the removal of disincentives for private self-help measures. The proposal does not acknowledge the need for planning nor does it take into account the budget implications of the Standby Petroleum Allocation Act (S. 1503) passed by large majorities in both Houses.

Many reports have been written which document the lack of U.S. emergency contingency planning efforts. As recently as September 1981, the General Accounting Office again highlighted the severity of the problem in its study entitled, The United States Remains Unprepared for Oil Import Disruptions, in which GAO states:

> "The U.S. Government is almost totally unprepared to deal with disruptions in oil imports. Oil import disruptions--such as the 1973 oil embargo and the 1979 Iranian shortfall--pose a significant threat to national security, and the lack of effective contingency planning and program development to date is serious and requires immediate attention."

In January of this year the Subcommittee requested that the GAO update this report, taking into account the FY 1983 budget request that the Administration has recently submitted. The updated report concludes that the proposed budget will exacerbate the problems outlined in their earlier study. As was indicated by GAO, the Administration appears to have chosen to abandon or greatly reduce efforts to develop a surge oil production capacity, to develop a SPR drawdown plan, to investigate private oil stock management plans, to develop programs of domestic demand restraint and fuel switching, and to maintain a credible international emergency preparedness capability.

In addition, a study recently published by the Georgetown University Center for Strategic and International Studies reaches similar conclusions. Upon releasing the report, Charles Ebinger, Project Director, stated: "While many of us were early advisors to the Reagan Administration, we feel the President's failure to take the energy crisis seriously now is a prescription for disaster later this decade."

The Subcommittee will hear witnesses from GAO and CSIS and will have the opportunity to discuss the findings of these studies in detail.

## Energy Information Administration

| | FY 1981 ACTUAL | FY 1982 ESTIMATE | FY 1983 REQUEST |
|---|---|---|---|
| Budget Authority ($000,000) | 90.4 | 78.9 | 54.5 |
| Staff Years | 576 | 556 | 392 |

Energy emergency contingency planning involves more than just "brain-storming" about what a potential emergency may look like and establishing mitigation efforts to handle the situation. Of equal importance is the provision of adequate and timely energy information during times of crisis, an ability made possible only by continued data collection during routine times. Without adequate information on the location, volume and price of energy supplies, in conjunction with information regarding the demand for various products, it is virtually impossible to monitor and make policy decisions on how best to mitigate the shortfalls that may occur.

The Energy Information Administration (EIA) was designed by Congress to provide meaningful, timely, and accurate energy information to the Executive Branch, Congress, State governments, and the public. EIA collects, processes, and interprets energy data, and exercises independent judgment in the gathering, analysis, and dissemination of information. EIA also provides essential energy data analysis and processing support to other energy programs, prepares regularly scheduled and special purpose analyses and short-term projections, and ensures the accuracy and validity of energy information.

The Administration has justified their reductions in the Energy Information budget based on two major assumptions. First, they have predicated some of the cuts upon adoption of proposed legislation, the "Energy Information Act Amendments of 1981" (S. 1281). The bill, which was introduced by request in May of 1981, was designed to

- eliminate the energy information and market monitoring requirements of the Emergency Energy Conservation Act of 1979

- eliminate the Financial Reporting System, a data collection and analysis system to assess the vertical investment of major energy companies

- eliminate several Congresionally mandated reports such as the Energy Information Administration Annual Report to Congress which provides the largest single compilation of energy data and mid- and long-term analysis

There is no companion bill in the House and no additional action has been planned in the Senate.

Second, the Administration is assuming major cuts in the data collection systems authorized under the Emergency Petroleum Allocation Act, which expired last September. The Congress, on the other hand, recognizing the gap in capabilities to monitor the energy marketplace and the need for sufficient data to manage an energy emergency, has included in the Standby Petroleum Allocation Act (S. 1503) a provision which would require the continued collection of this information.

Any diminution in the level of ability to provide this information will in turn increase the potential for deepening the impact of an emergency by making more probable ill-advised and uninformed decisions on mitigation efforts. The proposed cuts in the Energy Information Administration's budget could result in such a diminution.

## International Affairs

| | FY 1981 ACTUAL | FY 1982 ESTIMATE | FY 1983 REQUEST |
|---|---|---|---|
| Budget Authority ($000,000) | 8.9 | 4.8 | 0.4* |
| Staff Years | 101 | 85 | 0 |

* (to be used only to provide severance payments for employees discharged due to the closing of the Office)

A third component of DOE's emergency preparedness function has been the existence of an in-house international energy liaison both with allied nations and with the petroleum industry. This third component of emergency preparedness supports and draws from the programs of energy information collection and domestic contingency planning in order to coordinate U.S. actions with those of its partners on matters of mutual energy security. While the Department of State necessarily must take the lead in formulating our international energy goals in order to fit such actions into the wider mosaic of U.S. foreign policy, staff limitations there make it necessary that the State Department rely on the Department of Energy's Office of International Affairs for technical expertise on the petroleum industry, for analysis of conditions on the world oil market, and for assistance in carrying out the responsibilities of the United States with respect to the International Energy Agency.

The proposed elimination of the Office of International Affairs is predicated on the assumption that DOE's successor agency will assume the Department's statutorily mandated international functions. However, if a dismantling or reorganization of the Department of Energy does not occur prior to FY 1983 appropriations, funding for these mandated functions would not exist. While such international responsibilities arguably could be transferred to other DOE offices in an effort to prevent their total abrogation, doubts arise as to whether they could be performed adequately, since 1) little or no individual expertise would be transferred along with the functions, and 2) those Offices of DOE which would have to accept these new responsibilities also have been cut severely. Absent a credible transfer of these functions, the elimination of the Office appears likely to result in the Department failing to carry out effectively the international duties assigned to it by the Congress.

Apart from the above role played by the Office of International Affairs there exist numerous other legislatively mandated duties for which the Office is presently responsible and for which no apparent provision has been made in the Administration's budget request to ensure that the intent of Congress is carried out and existing law satisfied. A detailed compilation of the Department of Energy's international responsibilities which are met presently by the Office of International Affairs is provided in Attachment A.

## ATTACHMENT A

### Legislative Mandate of Office of International Affairs

There exist a number of legislatively mandated duties for which the Office of International Affairs is presently responsible and which are threatened by the Administration's proposed budget. These duties do not arise as a result of specific legislative directives to the Office of International Affairs itself but rather as a result of the Department both being charged under the DOE Organization Act with a general international energy role and being charged under various other legislation with specific duties which relate to this role. To carry out these responsibilities, subsequent delegations of authority have been made to IA by the Secretary.

The responsibilities given to the Office of International Affairs as a result of legal requirement are as follows:

A. General International Responsibilities

DOE Organization Act of 1977 Section 102 (10) - Gives DOE a general international responsibility

> "to establish and implement through the Department, in coordination with the Secretaries of State, Treasury, and Defense, policies regarding international energy issues that have a direct impact on research, development, utilization, supply, and conservation of energy in the United States and to undertake activities involving the integration of domestic and foreign policy relating to energy, including provision of independent technical advice to the President on international negotiations involving energy resources, energy technologies, or nuclear weapons issues, except that the Secretary of State shall continue to exercise primary authority for the conduct of foreign policy relating to energy and nuclear nonproliferation, pursuant to policy guidelines established by the President."

DOE Organization Act of 1977 Section 203 (a)(4) - Stipulates further that

> "There shall be in the Department eight Assistant Secretaries... who shall perform, in accordance with applicable law, such of the functions transferred or delegated to, or vested in, the Secretary as he shall prescribe in accordance with the provisions of this Act. The functions which the Secretary shall assign to the Assistant Secretaries include, but are not limited to, the following...

> (4) International programs and international policy functions, including those functions which assist in carrying out the international energy purposes described in Section 102 of this Act."

### B. International Oil Supply

Energy Policy and Conservation Act of 1975 Section 252 - The IEA Agreement binds the U.S. to participate in the emergency oil sharing system and various other data collection and market analysis activities. IA administers these responsibilities for DOE and provides the necessary technical expertise which the International Energy Policy Office of the State Department lacks. Together the two offices carry out the purposes of Section 252 which are:

> "(1) the development or carrying out of voluntary agreements and plans of action to implement the allocation and information provisions of the international energy program, and
> (2) the availability of immunity from the antitrust laws with respect to the development or carrying out of such voluntary agreements and plans of action."

### C. Natural Gas Imports

The Natural Gas Act of 1938 Section 3 as amended by the DOE Act of 1977 and subsequent delegation orders by the Secretary to ERA and FERC gives DOE the responsibility to determine that proposed natural gas imports and exports are not inconsistent with the public interest based on certain criteria including need, price and energy security. The Secretary has given IA the responsibility for executing the international policy and market considerations component of this function as well as the responsibility for negotiating with foreign governments on natural gas contracts. The applicable law is as follows:

The Natural Gas Act of 1938 Section 3 states that

> "... no person shall export any natural gas from the United States to a foreign country or import any natural gas from a foreign country without first having secured an order of the [Federal Power] Commission authorizing it to do so. The Commission shall issue such order upon application, unless, after opportunity for hearing, it finds that the proposed exportation or importation will not be consistent with the public interest."

DOE Act of 1977 Section 301(b)

> "Except as provided in title IV [relating to FERC jurisdiction], there are hereby transferred to, and vested in, the Secretary the function [including regulation of natural gas imports and exports] of the Federal Power Commission, or of the members, officers, or components thereof."

The Secretary's Delegation Order No. 0204-54 to the Economic Regulatory Administration

> "(a) There is hereby delegated to the Administrator of the Economic Regulatory Administration ("Administrator") the authority under Section 3 of the Natural Gas Act and Executive Order 10485, as transferred to the Secretary by Sections 301 and 402 (f) of the DOE Act, to determine whether importation or exportation of natural gas is not inconsistent with the public interest, insofar as such determination is based on the following considerations:
>
> (1) In the case of imported natural gas, the security of supply and effect on U.S. balance of payments;
>
> (2) The price proposed to be charged at the point of importation or exportation;
>
> (3) Consistency with duly promulgated and published regulations or statements of policy of the Department of Energy specifically applicable to imports or exports of natural gas;
>
> (4) National need for the natural gas to be imported or exported; and
>
> (5) Such other matters within the scope of Section 3 of the Natural Gas Act as the Administrator shall find in the circumstances of a particular case to be appropriate for his determination..."

As stated above, the Secretary has delegated to IA the responsibility to provide ERA with information and analysis of international questions in order to enable the Department to carry out the above responsibility. Additionally, negotiations with foreign governments over natural gas sales have been handled exclusively by IA for the Department.

D. Intelligence

The National Security Act of 1949 and the Central Intelligence Agency Act of 1949 deal with intelligence activities generally. Specific DOE Intelligence responsibilities and activities complimentary to other intelligence agencies of the U.S. government are set forth in Executive Order 12036 which specifies that the Department of Energy be represented on the National Foreign Intelligence Board as "an agency within the Intelligence Community." Section 1-13 of Executive Order 12036 directs the Secretary of Energy to

> "Participate with the Department of State in overtly collecting political, economic and technical information with respect to foreign energy matters; produce and disseminate foreign intelligence necessary for the Secretary's responsibilities; participate in formulating intelligence collection and analysis requirements where the special expert capability of the Department can contribute; and provide expert technical, analytical and research capability to other agencies within the Intelligence Community."

The Office of International Affairs is charged with the responsibility for conducting the intelligence activities of the Department. Approximately 30-35 staff positions routinely had been set aside for these activities. The Principal Deputy Assistant Secretary traditionally has been designated the Senior Intelligence Officer (SIO) for the Department although this has recently been changed so as to place this responsibility with the Assistant Secretary.

### E. Aid to Developing Countries

The Nuclear Non-Proliferation Act of 1978 Section 501 - IA has been charged with representing the DOE in international energy research and development programs and serves as the Department's focal point for scientific exchanges with developing nations. Although Title V of the 1978 Act has never been implemented by the Executive Branch nor been used as justification for any specific programs, IA's Country Energy Assessments Program served to satisfy at least the spirit if not the letter of the Act prior to the Program's elimination during the 1981 budget cycle. Arguably, AID's assessment program (which focuses on the poorest nations rather than transitional ones) substitutes in this capacity. However, since the two programs focussed on different nations and thus operated in a complimentary fashion rather than a redundant one, the elimination of IA's effort is indicative of the Administration's refusal to recognize the importance of cooperation with the Third World. All this aside, the legislative mandate that the DOE conduct such programs still exists. Section 501 and 502 of the 1978 Act read in part:

> "Sec. 501. The United States shall endeavor to cooperate with other nations, international institutions, and private organizations in establishing programs to assist in the development of non-nuclear energy resources, to cooperate with both developing and industrialized nations in protecting the international environment from contamination

arising from both nuclear and non-nuclear energy activities, and shall seek to cooperate with and aid developing countries in meeting their energy needs through the development of such resources and the application of non-nuclear technologies consistent with the economic factors, the material resources of those countries, and environmental protection...

Sec. 502. (a) The United States shall initiate a program, consistent with the aims of Section 501, to cooperate with developing countries for the purpose of

(1) meeting the energy needs required for the development of such countries;
(2) reducing the dependence of such countries on petroleum fuels, with emphasis given to utilizing solar and other renewable energy resources; and
(3) expanding the energy alternatives available to such countries.

(b) Such program shall include cooperation in evaluating the energy alternatives of developing countries, facilitating international trade in energy commodities, developing energy resources, and applying suitable energy technologies. The program shall include both general and country-specific energy assessments and cooperative projects in resource exploration and production, training, research and development.
(c) As an integral part of such program, the Department of Energy, under the general policy guidance of the Department of State and in cooperation with the Agency for International Development and other Federal agencies as appropriate, shall initiate, as soon as practicable, a program for the exchange of United States scientists, technicians, and energy experts with those of developing countries to implement the purposes of this section.
(d) For the purposes of carrying out this section, there is authorized to be appropriated such sums as are contained in annual authorization Acts for the Department of Energy, including such sums which have been authorized for such purposes under previous legislation..."

## F. Strategic Petroleum Reserve

The Energy Security Act of 1980 Section 801 (amending Section 160 of the Energy Policy and Conservation Act of 1975) requires that the Secretary develop an acquisition strategy to fill the SPR "in a manner consonant with the following objectives:

> (1) minimization of the cost of the Reserve;
> (2) orderly development of the Naval Petroleum Reserves to the extent authorized by law;
> (3) minimization of the Nation's vulnerability to a severe energy supply interruption;
> (4) minimization of the impact of such acquisition upon supply levels and market forces; and
> (5) encouragement of competition in the petroleum industry."

IA is charged with providing assessment of the international implications of SPR acquisition strategy especially with regard to (3) and (4).

## G. Synthetic Fuels

The Energy Security Act of 1980 Section 179 - IA is responsible for assessing the international implications of synthetic fuel development strategy with regard to the two western hemisphere synthetic fuel facilities authorized by the Act.

## H. Export Control

Export Administration Act of 1969 Section 5(a) - IA has the responsibility for providing technical commentary on the extent to which the export of oil and gas production equipment and technology should be limited.

## I. Nuclear Programs

In addition to the above duties, the Office of International Affairs is charged with a broad variety of responsibilities in the area of international nuclear cooperation and non-proliferation. These responsibilites account for more than 20 staff positions and approximately one-half of IA's organizational hierarchy. Specific IA duties (under the Nuclear Non-Proliferation Act of 1978 Sections 123 and 131) include: 1) participation and concurrence in negotiating international agreements for nuclear cooperation 2) responsibility for concluding subsequent arrangements under these agreements to a) furnish nuclear materials and equipment to foreign nations b) approve the transfer of nuclear materials, production/utilization facilities or nuclear technology from one recipient nation to another c) provide for the physical security of nuclear sites and d) arrange for the storage or disposition of irradiated fuel elements.

Mr. SHARP. We are delighted to have with us on our first panel Mr. Dexter Peach, the Director of the Energy and Minerals Division of the U.S. General Accounting Office, who has testified a number of times before this committee; and Mr. Kevin Boland, chairman of the professional audit review team.

Gentlemen, if you will come forward with anyone accompanying you, we would be delighted to hear from you. We would certainly be happy to make any written material you have a part of the record. And if you would summarize, we would appreciate it.

## STATEMENTS OF J. DEXTER PEACH, DIRECTOR, ENERGY AND MINERALS DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY DONALD FORCIER, DIRECTOR, ENERGY POLICY STUDIES; AND F. KEVIN BOLAND, CHAIRMAN, PROFESSIONAL AUDIT REVIEW TEAM

Mr. PEACH. Thank you, Mr. Chairman. I have with me today at the table on my left Mr. Don Forcier, who is the director responsible for energy policy studies in the Energy and Minerals Division for the General Accounting Office; and Mr. Bill Kruvant, who has been basically the project manager responsible for the work we have done as a result of various requests dealing with energy emergency preparedness programs. We are pleased to be here today. I will try to summarize and highlight my statement, which is brief, I believe.

Our conclusions are based on extensive work we have done in the emergency preparedness field, including a report we did on effective organization for contingency planning issued last March, a comprehensive evaluation of the emergency preparedness program which we published in September and a followup report to that which you requested and which is being publicly released today as of this hearing. [See p. 20.]

My testimony could be summarized in one sentence: Except for recent efforts to expedite the fill rate in the SPR, the United States is no better prepared to deal with a major oil disruption now than it was in the 1973 oil embargo, and all other energy emergency preparedness efforts are in various stages of disarray.

As of March 8, 1982, there were 243-million barrels of oil in the SPR. The rapid growth in the SPR over the past year has clearly benefitted our national security. As pointed out in my testimony last week before this subcommittee, however, the fill rate for fiscal year 1983 and the years ahead will be slowed by capacity limitations, unless alternative not now in DOE plans, such as leasing temporary storage, are considered and implemented.

The question of the appropriate size of the SPR cannot be considered in isolation. It is directly related to assumptions about possible energy emergencies and the adequacy of other emergency preparedness measures. If the SPR is our Nation's only significant insurance against an oil import disruption, the argument for a larger reserve is strengthened.

But, if other well-developed emergency plans exist, the argument for the currently planned 750-million barrel or an even smaller reserve are strengthened. DOE continues to study options for changing the current 750-million barrel stockpile and now promises the results of its study by May 1, 1982.

Our September report, and our followup report, document in detail the missed opportunities and the current inadequacies in energy emergency preparedness. In the September report, we recommended steps in five basic areas where contingency planning can be used to mitigate the effects of shortfalls. These are: Use of public and private oil stocks along with surge oil production to directly offset a shortfall; switching from oil to gas, oil, or electricity to replace oil with other fuels; lowering demand for oil temporarily to make smaller supplies stretch farther; instituting an emergency oil distribution mechanism to insure that important activities are maintained; and effective cooperation with other oil-consuming nations to minimize the effects of a disruption worldwide.

Our September report emphasized to be truly effective, contingency programs had to be fully developed, tested, and ready for quick implementation.

I might add, Mr. Chairman, that making decisions on emergency preparedness plans under the stress of an emergency, as we have found in the past, show we end up with hasty, ill-conceived plans which do not operate in the manner we would like.

DOE's fiscal year 1983 budget submission reduces or eliminates planning efforts in many of these areas. Specifically, DOE has no plans to: Develop a surge oil production capability; develop a strategic petroleum reserve drawdown policy; institute a private oil stock management program; or develop voluntary and mandatory demand restraint programs.

Efforts in fuel switching and international emergency preparedness would be substantially curtailed. Additionally, few resources will be devoted to developing allocation or emergency tax/rebate systems that could be used to counter oil price increases and help insure oil availability. Some emergency system is needed since previous oil allocation systems have been discarded.

DOE sees this narrowing of energy emergency planning as a positive step which will rely on unfettered markets to counter disruptions. In their response to our September 1981 report, DOE stated that they intend to rely nearly exclusively on the market mechanism to adjust to market disruptions.

The proposed fiscal year 1983 budget has been reduced from more than $10 million to somewhat more than $5 million and from 94 to 72 staff-years. In our view, the issue is not fewer staff-years or a lower budget, but how those staff-years are used and whether the Nation can rely, as DOE believes, almost totally on the market mechanism to the exclusion of other practical initiatives. It is interesting to note that the oil industry also sees the wisdom of a mix of measures.

The National Petroleum Council, a DOE advisory group largely made up of oil industry representatives, noted the value of having such a mix of contingency plans in their April 1981 report.

While our report goes into the details and effects of the reduced program more thoroughly than I can cover in this statement, I would like to illustrate the effects of the proposed reductions in one area of emergency preparedness—international contingency planning and American relationships with the International Energy Agency.

The role of DOE, and especially its Office of International Affairs, has been substantial. In fiscal year 1982 DOE allocated approximately 18 staff-years to IEA matters—12 of which came from the Office of International Affairs. The Department of State provided 5 staff-years.

The fiscal year 1983 budget would abolish International Affairs, reducing IEA-related staff by more than 50 percent. While the functions, staff, and budget of other DOE offices would be transferred under a reorganization, only the functions—but no money or staff—of International Affairs would be transferred.

Furthermore, a proposal to increase State Department staff dedicated to international energy matters by 20 staff-years and incorporate all DOE international activities was rejected, and no additional staff will be assigned.

The Office of International Affairs staff have been particularly important in the nuts-and-bolts operations of the IEA. They have been responsible for preparing U.S. position papers on various topics coming before the IEA Governing Board, coordinating those papers with other U.S. agencies, and generally providing the principal staff support for the United States-IEA relationship.

The budget proposal asserts:

> The international activities which are important to our international commitments and energy security will be conducted as stated by the President and transferred to the Commerce Department.

However, the Office of International Affairs' functions concerning the IEA have been substantial, and it is at best unclear if U.S. obligations to the IEA can be fully discharged under these circumstances.

Our present report also covers the proposed energy reorganization to the extent possible without a formal administration reorganization plan. From what we were able to gather from the budget and in interviews with DOE and Department of Commerce officials, emergency preparedness would be transferred to the Department of Commerce.

Commerce officials inform us that the energy emergency functions of DOE would probably be combined with similar nonfuels strategic materials functions now performed by Commerce. The combined organizations are slated to be the province of an Assistant Secretary for Strategic and Emergency Planning reporting to the Secretary/Deputy Secretary. Just how energy preparedness would fit into this structure has not been resolved.

Because the organizational question is still open, it is difficult to analyze what problems might be created by the new structure. However, our previous work on appropriate organization for emergency preparedness revealed key factors needed in any contingency planning structure to insure effective planning. Such planning requires centralizing the function in a single office; vesting adequate authority in those responsible for emergency preparedness; making available adequate staff to carry out the program; and finally, giving the entire area the high priority it deserves.

Centralizing contingency planning in one office makes it easier to monitor plan development, guarantee that the programs will complement each other, and assess whether the programs taken together will adequately deal with projected contingencies. Centralization also helps avoid problems of timeliness in plan preparation and quality control. DOE responded to the need for centralization when it consolidated contingency planning under the Assistant Secretrary for Environmental Protection, Safety and Emergency Preparedness. It is important that centralization be maintained under any reorganization to promote effective coordination.

The priority given any particular program is, of course, largely in the eye of the beholder. DOE officials have stated that emergency preparedness is a high priority. However, we have noted the elimination of a number of emergency planning areas, the deemphasis of others, and the slow progress in developing contingency plans. This may reflect DOE's concept of appropriate priority; however, we believe that the Nation is not progressing fast enough toward adequate emergency preparedness.

Given its current approach, the prospects for DOE developing a sound emergency preparedness program are slight. No comprehensive or even individual response plans in any contingency planning area have been completed since our review of emergency planning in 1981. The activities planned for fiscal year 1982 will do little to improve preparedness.

Our work has convinced us that the Nation needs a balanced energy emergency program, one which judiciously blends primary reliance on private oil markets with government programs. Such a program would greatly limit the serious economic damage which oil import disruptions can cause.

To illustrate how serious these effects can be, a recent study on the strategic petroleum reserve pointed out that a 3 million barrel-per-day import shortfall in 1984 would cost the economy over $200 billion, 15 percentage points more inflation, and 2.5 million jobs.

On the basis of DOE's performance to date and its plans for the coming year, we question whether energy emergency preparedness is receiving the priority it deserves.

Mr. Chairman, I also might add a thought to our testimony. You indicated one emphasis today will also be the adequacy of energy information for emergency preparedness planning. If I could go back to work we did at the time of the Iranian shortfall in 1978, one of the things we constantly were reminded of in doing that work was the inadequacy of the information existing at that time to determine what kind of shortfall existed and also what was happening within the oil market as a result of that shortfall and how that could best be counteracted.

That was one of the essential themes of work we did, and it leads right to the point of saying that in an emergency we believe, based on that work, that there would be a demand for objective, credible information.

That was one of the purposes for setting up an Energy Information Administration in DOE. And I think it leads logically to this linkage between emergency preparedness programs and the need for good energy information in order to manage them.

Mr. SHARP. Thank you, Mr. Peach.

[Testimony resumes on p. 35.]

[The attachment to Mr. Peach's prepared statement follows:]

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-206525

The Honorable Philip R. Sharp
Chairman, Subcommittee on Fossil
and Synthetic Fuels
Committee on Energy and Commerce
House of Representatives

Dear Mr. Chairman:

Subject: The Effects of the Fiscal Year 1983 Budget, Energy Reorganization, and Program Changes on U.S. Energy Emergency Preparedness (EMD-82-45)

Your January 29, 1982, letter requested that we update our analysis of energy emergency preparedness published last September 1/ by looking into the effect of continuing budget and staff reductions at the Department of Energy (DOE). You also asked us to comment on the implications the proposed energy reorganization may have on both domestic and international energy emergency preparedness and to clarify the United States' obligations under the International Energy Program. Lastly, you wanted our view on what actions should be taken to ensure adequate preparedness beyond those covered in S. 1503.

Our September report noted many weaknesses in the Government's energy emergency preparedness posture. Our conclusion was that,

> "The U.S. Government is almost totally unprepared to deal with disruptions in oil imports. Oil import disruptions * * * pose a significant threat to national security, and the lack of effective contingency planning and program development to date is serious and requires immediate attention."

Since then, progress has been slow; there is still no comprehensive plan or even individual response plans in any contingency planning area which can be considered fully operational.

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1/"The U.S. Remains Unprepared for Disruptions in Oil Imports," EMD-81-117, Sept. 29, 1981.

SUMMARY

As this letter shows, under its proposed budget--which is a substantial reduction from fiscal 1981 and 1982 levels --the administration has chosen to reduce contingency planning efforts in several areas. Specifically, DOE has no plans to

- --develop a surge oil production capability (except for a small capability at the Naval Petroleum Reserve at Elk Hills),
- --develop a Strategic Petroleum Reserve (SPR) drawdown policy,
- --institute a private oil stock management program, or
- --develop voluntary and mandatory demand restraint programs.

Efforts in fuel switching and international emergency preparedness would be substantially curtailed. Additionally, few resources will be devoted to studies of emergency tax/rebate systems that could be used to counter oil price increases even though the previous oil allocation systems have been discarded. The proposed fiscal year 1983 budget for emergency preparedness will further delay the completion of adequate contingency plans.

At this time, the administration has not yet released its energy reorganization plan, so we could not analyze it in detail. Our previous work in emergency preparedness organization [1/] indicated that an effective planning operation needs to: (1) be centralized in one office, (2) be given a high priority, (3) be vested with adequate authority, and (4) have necessary staff available to carry out the program. It is not clear that the reorganized emergency preparedness program will have these characteristics. We note, however, that in one component of energy emergency preparedness--international preparedness--the staff is being reduced from 18 in fiscal 1982 to 6 in fiscal 1983, a reduction of two-thirds. The Department of State's component remains unchanged at 5 staff years.

Senate bill 1503 would help fill a void by giving the President authority to act in an energy emergency. While this would be a step in the right direction, emergency preparedness is more than legal authority. The Government must also have the capability to

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[1/] "The Department of Energy's Reorganization of Energy Contingency Planning Holds Promise--but Questions Remain," EMD-81-57, March 4, 1981.

act, and this means having sound contingency plans. Until those plans are developed, tested, kept ready, and can be implemented quickly, the Nation will not be adequately prepared.

We are currently assessing the legal requirements of the United States under the International Energy Program to institute mechanisms for demand restraint and fair sharing. That response will be forwarded to you under separate cover.

## SCOPE AND METHODOLOGY

This report updates and supplements the findings of our March and September 1981 reports. Our assessment of the impacts which reorganization and funding reductions may have on energy emergency preparedness is based on criteria developed in these studies, namely, that contingency measures should be fully developed, tested, maintained, and able to be implemented quickly.

To evaluate the impact of budgetary reductions, we analyzed the proposed budgets of several organizations within DOE, specifically the Office of Emergency Preparedness, the Strategic Petroleum Reserve, the Energy Information Administration, and the Office of International Affairs. For guidance on DOE's current contingency planning policy, we also relied on the Department's written response to the recommendations contained in our September report, submitted to the Congress under Section 236 of the Legislative Reorganization Act of 1970. To assess the potential impacts of reorganizing DOE, we examined the information contained in the budget showing which Departments the various DOE operating programs would be assigned. Analysis of the budget was supplemented with information obtained in interviews with officials of the Departments of Energy, Commerce and State. Our evaluation was performed in accordance with GAO's current "Standards for Audit of Governmental Organizations, Programs, Activities and Functions."

## WHAT DOES THE NATION NEED TO BE PREPARED FOR OIL IMPORT DISRUPTIONS?

Our earlier report contained recommendations for improvements in five areas of contingency planning. These are:

--Increasing oil supplies, including

--realistic planning for SPR use, including drawdown rates, amounts, timing, and method of distribution;

--cooperating with the States in developing plans for surge oil production from Government and private oil fields; and

--planning for both needed buildup and drawdown of industry-held oil stocks.

- Substituting for oil, including acquiring needed information and removing constraints to implementing effective emergency programs in
  - switching from oil to gas,
  - switching from oil to coal,
  - increasing electricity transfers,
  - increasing electricity and gas imports, and
  - increasing electricity generation from coal and nuclear.
- Developing adequate emergency demand restraint plans on the Federal and State levels, including
  - consumer information programs,
  - voluntary programs,
  - mandatory programs, and
  - revising the basic law on demand restraint to make planning and implementation more timely.
- Replacing the expired Emergency Petroleum Allocation Act authorities with standby ones to help assure continued oil availability during disruptions, specifically
  - reviewing allocation systems and tax/rebate alternatives and recommending legislation if appropriate.
- Improving the international emergency preparedness program by
  - encouraging higher international oil stock holdings,
  - setting aside some reserves to alleviate small disruptions,
  - reviewing demand restraint and fair sharing programs, and
  - establishing a mechanism to resolve price disputes between International Energy Agency member countries during disruptions.

Whatever specific forms programs in these areas take, they must have four attributes to be effective. They must be fully developed, tested, maintained in readiness and be capable of timely use. Lack of any of these characteristics will result in poor emergency performance or outright failure.

## THE PROPOSED FISCAL YEAR 1983 BUDGET FOR ENERGY EMERGENCY PREPAREDNESS

The Nation's largest and most developed energy emergency program is the Strategic Petroleum Reserve. The proposed fiscal year 1983 budget for SPR development and operations amounts to $2.32 billion. These funds are for oil acquisition and transportation, storage facility planning and development, program direction, and other expenses related to the physical operation of the SPR. This report does not deal with SPR operations; that has been the subject of several GAO reports, the most recent one having been published this past December. 1/ In this report, we focus on the policy planning activities which address such issues as when the SPR should be used, the drawdown rate, how the oil should be distributed, and what minimum reserve margin should be kept for extreme emergencies. The Deputy Assistant Secretary for Energy Emergencies is responsible for recommending policy in these areas, while SPR operations are under the authority of the Deputy Assistant Secretary for the Strategic Petroleum Reserve.

The proposed budget for the Emergency Preparedness Program under the Deputy Assistant Secretary for Energy Emergencies contains $5.4 million and 72 staff years. This represents a cut of 47 percent (from $10.3 million) in funds and 23 percent (from 94) in staff from this year's appropriation.

Contingency planning in fiscal year 1982 and 1983 was and will be concentrated in the following areas:

| Programs | Staff Year Request Fiscal 1982 | Staff Year Request Fiscal 1983 |
|---|---|---|
| Strategic Petroleum Reserve | 3 a/ | 3 a/ |
| --continued development, | | |
| --test of distribution procedures, and | | |
| --studies of its vulnerability. | | |

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1/"Strategic Petroleum Reserve: Substantial Progress Made, but Capacity and Oil Quality Concerns Remain," EMD-82-19, December 31, 1981.

| | | |
|---|---|---|
| International Programs | 6 | 6 |
| --support voluntary U.S. oil company involvement in International Energy Agency programs, and | | |
| --continued NATO planning regarding emergency oil supply distribution. | | |
| Defense Preparedness | 29 a/ | 22 a/ |
| --complete plan for using Naval Petroleum Reserves, | | |
| --refine plan to implement the Defense Production Act, | | |
| --continue support for the Emergency Mobilization Preparedness Board, | | |
| --continue model development to assess defense related energy requirements, and | | |
| --complete plans to operate non-oil Emergency Reserve Program. | | |
| Public Education/Outreach | 3 | 0 |
| --seminars and technical assistance | | |
| Data Analysis/Studies | 33 a/ | 31 a/ |
| --continue assessment of world situation and potential impact of energy emergencies, | | |
| --continue developing capability to assess the imminence of and potential impact of energy emergencies, | | |
| --continue analysis of free market operations, | | |
| --continue studies of measures to encourage private oil stockpiling, and | | |
| --develop policy options for income transfers during emergencies. | | |

| | | |
|---|---|---|
| Electrical Emergency Preparedness<br>--continue assessment of the electric utility network vulnerability to disruption,<br>--continue reporting on electric power system reliability as required under Public Utility Regulatory Policies Act,<br>--continue activities required under the Federal Power Act, and<br>--continue planning for emergency electricity transfers and increased electricity production. | 20 | 10 |
| Total b/ | 94 | 72 |

a/Estimated by GAO

b/Fiscal year 1981 staff year budget was 129. The distribution by program area is not available.

The fiscal year 1983 budget request does not contain detailed funding information for DOE's activities as outlined above. It is even more difficult to translate the limited information into the programmatic categories analyzed in our September report. DOE officials from the offices of the Comptroller and the Deputy Assistant Secretary for Emergency Preparedness informed us that more detailed data do not exist in the emergency preparedness area. Because of time constraints we were not able to develop such information ourselves.

The proposed Emergency Preparedness Program areas with the largest proposed staff allocations are Defense Preparedness and Data Analysis/Studies. These areas constitute an estimated 53 staff years out of the 72 staff year total. However, the program excludes many promising areas which we analyzed in our September report and which we believe are needed to counter disruptions. There are no plans to develop drawdown policy for the SPR or to promote surge oil production. Efforts to design a private oil stock management program, to design emergency demand restraint measures, and allocate oil have been abandoned. No funds are requested for the Fuels Conversion Program, and it is not clear whether there will be any effort to continue developing plans for emergency oil to gas and coal switching.

Unfortunately, there is little likelihood that DOE will make much progress in developing sound contingency plans in these areas without clear signals from Congress. In commenting on our recommendation that the Government develop an SPR drawdown plan, DOE stated that:

> "It is DOE's position that it is neither practicable [sic] nor desirable to prepare in advance an SPR implementation plan * * * if developed and made public, (it) could impair the effective use of the SPR."

In the case of a private stock management plan, DOE said

> "DOE does not concur with this recommendation. Government intervention in the management of private industry stocks during supply shortages is antithetical to the most fundamental principles of the Administration's energy emergency preparedness policy. It interferes with the workings of the market and, therefore, impairs the ability of market forces to allocate resources efficiently and effectively * * * the Department believes further work in this area would be counterproductive."

In our opinion, neither of these positions is supportable. An SPR use plan is desirable so that American companies know they can count on additional supplies and do not panic and flock to the spot market, bidding up prices as they have done during both previous disruptions. Our September report pointed out that the details of SPR drawdown need not be made public, just as the general outlines of our military planning are publicly available while actual operational plans are secret. As far as practicality goes, the Government plans for numerous military contingencies on an ongoing basis. It strikes us that planning for SPR use would be no more difficult and perhaps much easier than planning for major armed conflict.

Concerning private stock management, we do not advocate Government intervention in private oil stocks during normal times. However, politically caused market disruptions are not normal. During these extraordinary happenings, there is room for industry and government to cooperate in using oil stocks in the national interest. Here, as in most contingency planning areas, collaboration of Government and industry beforehand can pay large dividends during a crisis.

Surge oil production on non-Federal lands has considerable potential as an oil disruption countermeasure, but DOE is devoting only minimal efforts to it. DOE concurred with our recommendation to seek the cooperation of States which have significant surge production potential so that output can be temporarily raised. Responding to our recommendation, DOE said in part:

> "This recommendation is in consonance with the Administration's energy emergency response policy of eliminating regulatory barriers which may inhibit increased domestic oil production in response to supply disruptions."

However, the Department has not initiated any action for this purpose. Considerable effort is needed to remove the many regulatory barriers in advance of disruptions so that an effective surge production program can be instituted quickly when needed.

The benefits of demand restraint planning should not be overlooked. Federal guidance in demand restraint is vital for the effective implementation of other domestic and international contingency programs. Here again, strong DOE leadership is unlikely. The Department's response to our recommendations on ways to improve the Federal demand restraint effort was, in part:

> "DOE does not concur with the first and second parts of the recommendation which imply the use of mandatory federal demand restraint programs. Under the Administration's strategy to deal with energy supply disruptions, mandatory demand restraint programs in a shortage situation will be unnecessary since market forces will serve to allocate petroleum supplies * * * in the most efficient manner. Thus, the Department sees no benefit from a system to monitor State energy use to support such demand restraint programs, nor the need to expand the current Federal Standby Plan."

Use of mandatory demand restraint programs formed only a small part of the recommendations we made in the emergency conservation area. We pointed out that consumer information and voluntary action was preferrable and that mandatory action should be a last resort. We recommended, however, that standby mandatory programs be available for implementation in the event that voluntary programs do not work. The fact is that DOE has abandoned all areas of demand restraint on the Federal level and is not providing guidance for State demand restraint planning.

DOE's proposed Emergency Preparedness Program reflects the administration's policy of relying almost exclusively on market forces to counter disruptions. The 72 staff years for fiscal year 1983 reflect the narrowing of the program. In our view, the main problem is not fewer staff years. Instead, we take issue with what we see as an over-reliance on the market mechanism to the exclusion of other practical initiatives. It is interesting to note that the oil industry also sees the wisdom of a mix of measures. The National Petroleum Council, a DOE advisory group largely made up of oil industry representatives, noted the value of having such a mix of contingency plans in their report. 1/

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1/National Petroleum Council, Emergency Preparedness for Interruption of Petroleum Imports into the United States, Washington, D.C., National Petroleum Council, Apr. 1981.

## THE EFFECTS OF REORGANIZATION ON EMERGENCY PREPAREDNESS ARE NOT CLEAR

Under the administration's reorganization proposal, emergency preparedness would be transferred to the Department of Commerce. The details of how energy emergency preparedness would be organized in Commerce have not yet been decided. Commerce officials informed us that the energy emergency functions of DOE would probably be combined with similar non-fuels strategic materials functions now performed by Commerce. The combined organizations are slated to be the province of an Assistant Secretary for Strategic and Emergency Planning reporting to the Secretary/Deputy Secretary. Just how energy preparedness would fit into this structure--whether it would be the concern of a deputy assistant secretary as it is now at DOE--has not been resolved.

Because the organizational question is still open, it is difficult to analyze what problems might be created by the new structure. However, our previous work on appropriate organization for emergency preparedness revealed the key factors which must be present in any contingency planning structure to ensure effective planning. Such planning requires centralizing the function in a single office; vesting adequate authority in those responsible for emergency preparedness; making available adequate staff to carry out the program; and finally, giving the entire area the high priority it deserves.

Centralizing contingency planning in one office makes it easier to monitor plan development, guarantee that the programs will complement each other, and assess whether the programs taken together will adequately deal with projected contingencies. Centralization helps avoid problems of timeliness in plan preparation and quality control which can arise if other offices see contingency planning as a lower priority than their main ongoing programs.

DOE responded to the need for adequate centralization when it consolidated contingency planning under the Assistant Secretary for Environmental Protection, Safety and Emergency Preparedness. It is important that centralization be maintained under any reorganization to promote effective coordination.

Whatever official directs emergency preparedness needs the authority to direct other offices to contribute the staff and other resources needed to get the planning and emergency operations jobs done. The precise level that the official has in the formal organization is less important than if top management makes it clear that contingency planning is important, and that other agency officials need to give full support to emergency preparedness when called on to do so.

Adequate staffing for emergency preparedness clearly depends on the scope of the program. Emergency preparedness staff will fall from 129 staff years in fiscal year 1981 to 72 staff years in fiscal year 1983, reflecting the narrowing of the program. We did not have time to do the detailed audit work to evaluate whether 72 staff years were enough to carry out this narrower program. Our main concern is that the program now excludes many potentially fruitful areas for contingency planning.

The priority given any particular program is, of course, largely in the eye of the beholder. DOE officials have stated that emergency preparedness is a high priority. However, we have noted the abandonment of a number of emergency planning areas, the de-emphasis placed on others, and the slow progress in developing contingency plans. This may reflect DOE's concept of appropriate priority; however, we believe that the Nation is not progressing fast enough toward adequate emergency preparedness.

## THE PROPOSED BUDGET, REORGANIZATION, AND THE INTERNATIONAL ENERGY PROGRAM

DOE's Office of International Affairs and Office of Emergency Preparedness (EP), along with the Department of State, are involved in representing the United States at the International Energy Agency (IEA). Under a 1974 executive agreement, the United States subscribes to the IEA's International Energy Program, which is largely concerned with international oil sharing in the event of serious market disruptions. 1/

The Secretary of Energy usually heads the highest level IEA ministerial meetings. The Assistant Secretary of State for Economic and Business Affairs usually heads the U.S. delegation to regular Governing Board meetings, but the Assistant Secretary of Energy for International Affairs occasionally acts in that capacity. At DOE, the Office of Energy Consuming Nations in the Office of International Affairs has primary responsibility for staff-level work on IEA issues. These functions include:

--preparing U.S. position papers on various topics coming before the IEA Governing Board,

--coordinating those papers with other U.S. agencies,

--monitoring all IEA functions,

--representing the United States at IEA Standing Group meetings on issues such as emergency sharing, oil market information, long-term cooperation, research and development, and producer-consumer relations, and

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1/For a review of U.S. participation in the IEA, see U.S. General Accounting Office, "Unresolved Issues Remain Concerning U.S. Participation in the International Energy Agency," ID-81-38, September 8, 1981.

--providing staff assistance for IEA Governing Board meetings.

International Affairs provided approximately 12 professional staff years for U.S./IEA affairs at the beginning of fiscal 1982; EP supplements these efforts with about 6 professional staff years. State dedicated approximately 5 staff years to IEA matters during fiscal 1982.

Several functions for integrating U.S. contingency planning efforts with its IEA commitment are shared by EP and International Affairs. Under the International Energy Program (IEP), the United States is required to coordinate with the IEA's Emergency Sharing System (ESS) and develop a workable plan where U.S. oil companies will share the burdens of that system equitably. The United States is also committed to provide accurate, timely, and reliable data to the IEA for the effective operation of the ESS; coordinate implementation of demand restraint measures; assess the national product supply and demand situation; coordinate with nonreporting oil companies concerning the development of voluntary offers; and issue direct instructions to companies to implement mandatory allocations. In addition, DOE has responsibility for administering a Voluntary Agreement under the Energy Policy and Conservation Act which stipulates circumstances under which U.S. oil companies can participate in IEA activities. DOE, in conjunction with the Federal Trade Commission and the Department of Justice, monitors company involvement in the agreement, primarily through International Affairs and the Office of General Counsel. DOE also provides certain management functions for formal Industry Group meetings, monitors ESS tests, and provides clearances for emergency-related data submissions by oil companies.

The fiscal year 1983 budget would abolish International Affairs. While the functions, staff, and budget of the Office of Emergency Preparedness would be transferred to Commerce, only the functions--but no money or staff--of International Affairs would be transferred. Furthermore, a proposal to increase State Department staff dedicated to international energy (including IEA) matters by 20 staff years and incorporate all DOE international activities was rejected, and no additional staff will be assigned.

The budget proposal asserts, "The international activities which are important to our international commitments and energy security will be conducted as stated by the President and transferred to the Commerce Department." However, International Affairs' functions concerning the IEA are substantial, and it is at best unclear if U.S. obligations to the IEA can be fully discharged under these circumstances.

## WHAT ACTIONS ARE NEEDED BEYOND THE AUTHORITIES FOUND IN S. 1503?

The last question in your January 29 letter asked what authorities beyond those contained in Senate bill 1503 would be needed to support development of adequate energy emergency plans. You also asked what actions should be taken by the executive branch to the same end. Our analysis is based on comparisons between the provisions of Senate bill 1503--the Standby Petroleum Allocation Act of 1982--and current contingency programs to determine if they provide a basis for an overall program as we recommended in the September 1981 report.

Basically, we agree with the thrust of the bill; it provides for the authorities needed to prepare, initiate, and implement emergency procedures to counter an energy disruption. Senate bill 1503 includes provisions to: (1) allocate petroleum supplies domestically during a severe supply interruption, (2) include crude oil sharing measures in any contingency plans to fairly distribute sharing burdens among International Energy Program participating companies and ensure equitable distribution of crude among U.S. refiners, (3) encourage the maintenance of inventories and acquisition of secure supply sources, (4) provide for State petroleum product set-aside programs, (5) stipulate that the emergency provisions developed on the Federal level will supersede State laws unless those laws are specifically exempted by the President, (6) extend the authorities found in the Energy Policy and Conservation Act to participate in the International Energy Program, and (7) provide for certain reporting requirements and impact analyses.

Senate bill 1503 goes far toward providing the authority for taking the kind of actions we believe are necessary to cope with an energy emergency. The most notable characteristic of the bill is that it provides for standby allocation to assure oil availability during a disruption. We agree that a standby emergency distribution system is necessary, and noted in our September report that a tax/rebate system may provide a viable alternative to the crude oil and petroleum product allocation system which was in place until October 1981.

While the bill addresses many areas we consider to be necessary for proper contingency planning, Senate bill 1503 provides authority for Presidential control of oil prices as well as supplies. Our September report noted that price controls could be counterproductive and should be avoided if at all possible.

Although we believe that Senate bill 1503 goes quite far in providing the authority for action in an energy emergency, it does not address several issues we consider vital for contingency planning. We believe further congressional action is warranted in the areas of private oil stock management and demand restraint.

The bill stipulates that emergency preparedness programs should encourage the maintenance of high petroleum inventories by refiners. This is fully consonant with our previous recommendation as far as it goes. However, it is completely dependent on the voluntary cooperation of the industry and consumers. The ultimate usefulness of inventories depends on both the Government's ability to provide proper incentives for building adequate stocks and a plan for coordinating their use within an overall contingency plan. The bill does not provide mechanisms for the President to encourage stock building during normal times or to encourage stock drawdown during disruptions. This is an issue where congressional action would be desirable along the lines recommended that in our September report. There, we recommended that the Congress maintain the authority of the Secretary of Energy to require companies to adjust stock levels during energy emergencies and provided legislative language to this effect. Although this is a controversial issue, we continue to believe it is in the national interest for the Government and U.S. companies to work together to utilize stocks for the national good--as they now cooperate internationally under the auspices of the IEA--during disruptions. We are continuing to look into possible stock management policy options at the request of Senator Bradley, a member of the Senate Committee on Energy and Natural Resources.

We believe that demand restraint planning is an important part of emergency preparedness, both domestically and internationally. Senate bill 1503 does not constitute the overhaul of Federal demand restraint that we concluded is needed, relying solely on the Emergency Energy Conservation Act of 1979 (EECA). Our September report discussed the need to amend EECA to streamline the procedures for implementing demand restraint plans. In amending EECA, we recommended that Congress require the States to submit their demand restraint plans to DOE for approval before disruptions; the plans should demonstrate that standby programs exist which could achieve specified results. Our previous report also provided legislative languages for making changes in this area. While amending EECA along these lines would establish a base for better planning, DOE initiative would also be necessary to make demand restraint effective.

Other areas which do not require legislative action but where DOE can take steps to improve readiness are surge oil production, fuel switching, and international preparedness programs. We made recommendations to DOE in all three areas in our September report, but the Department does not intend to develop contingency plans in these areas.

Overall, Senate bill 1503 constitutes a step in the right direction by providing the authority to act decisively in an energy emergency. The bill provides a needed base for emergency preparedness. However, having authority does not mean being prepared. Government must also have the capability to act through developing proper contingency plans. Without adequate contingency plans which are fully developed, tested, maintained in readiness, and capable of being implemented quickly, having the authority to act in a crisis will be insufficient. While this bill gives the Executive authority to act in many areas, it cannot ensure that the needed actions will be taken. It is up to the Executive to implement the legislative mandates for emergency preparedness. Until it does, the Nation will not have the full measure of energy security it needs.

CONCLUDING NOTE

In our view, the prospect for developing a sound emergency preparedness program based on the administration's view of appropriate contingency measures and the proposed budget are meager. No comprehensive or even individual response plans in any contingency planning area have been completed since our review of emergency planning in 1981. The activities planned for fiscal year 1982 will do little to improve preparedness. The proposed budget will lead to fewer emergency preparedness programs, since several contingency planning efforts will be abandoned. The reason for emergency preparedness planning is clear. Relatively modest attention to contingency measures holds great promise for mitigating the worst effects of disruptions. For example, a recent study on the SPR pointed out that a 3 million barrel per day import shortfall in 1984 would cost the economy over $200 billion, 15 percentage points more inflation, and 2.5 million jobs. 1/ Clearly, expenditures for contingency planning in the millions of dollars and strategic oil stockpiling are prudent investments in national security. On the basis of DOE's performance to date and its plans for the coming year, we question whether energy emergency preparedness is receiving the priority it deserves.

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As requested by your office, we did not solicit agency comments on this report. Copies of this report are being sent to the Secretaries of Energy, Treasury, and State; and the Director, Office of Management and Budget. Copies will also be available to other interested parties who request them.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

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1/Subcommittee on Energy and Power, Committee on Interstate and Foreign Commerce, U.S. House of Representatives, "An Evaluation of the Strategic Petroleum Reserve," Washington, D.C., GPO, June 1980.

Mr. **Sharp**. Mr. Boland, you may proceed.

### STATEMENT OF F. KEVIN BOLAND

Mr. **Boland**. Thank you, Mr. Chairman. I welcome the opportunity to discuss the professional audit review team's [PART] evaluation of the activities of the Energy Information Administration—EIA. The last time I appeared before you in this subcommittee, I wore a second hat. I represented that well known and distinguished organization called the General Accounting Office. PART is not as well known, and I thought I would briefly describe to you how it came about.

PART was created by the Energy Conservation and Production Act of 1976 in response to the Congress concern about the objectivity of energy information activities. PART consists of a chairman designated by the Comptroller General of the United States and members drawn from the Bureau of the Census, the Bureau of Labor Statistics, the Council of Economic Advisers, the Federal Trade Commission, and the Securities and Exchange Commission.

In your letter requesting me to testify, you asked that I discuss the findings of our most recent review of EIA and, to the extent possible, comment on EIA's activities as they support the Department of Energy's emergency preparedness and international affairs functions.

PART has closely followed EIA's activities since the Agency was created in 1977. Because of PART's broad mandate to evaluate the overall performance of EIA, we have focused our work on its key management functions.

In accordance with legislative requirements, we have issued three reports to the Congress and the President on EIA's performance. We expect to issue the fourth report later this month, and I will draw heavily on the tentative findings and observations of that work for my testimony today.

First, I would like to discuss briefly the need for a strong Federal energy information capability, which Mr. Peach has already mentioned.

Timely and credible information is needed to guide decisionmaking and policy formulation for dealing with all types of energy problems. The quality and extent of the information needed is largely dependent on the intended use of the information and the seriousness of the problem to be resolved. Energy is a serious long-term problem with important implications for the Nation's security, economy, quality of life, and international affairs.

The events of the past decade have shown that a strong energy information capability is needed to deal with not just one but with many types of emergencies. Also, to be effective, the capability must be available for use on short notice.

Although the consequences of oil import cutoffs have received the most attention, the Nation also has struggled with major emergencies related to fuel and propane shortages, coal strikes, and natural gas shortages during winter months. In such instances, information was needed for guiding decisions and policies to address the problems and all too often the needed information was lacking.

EIA was formed, as I said, in 1977 in a climate of much concern about the information available to cope with energy emergency situations. Much of this concern had its roots in a deep skepticism about the completeness and credibility of energy information. EIA ultimately evolved from a series of congressional actions to correct this situation.

In establishing the information agency, two considerations were key. First, to provide a focus for the energy problem, the new agency was situated in the Department of Energy as a neutral source of energy data and analyses. Second, to ensure that EIA's information was credible, it was insulated from the energy policy function. This gave EIA a large measure of needed independence in carrying out its activities.

The establishment of PART was also central to Congress concerns about the objectivity and quality of energy information. PART was created to insure that the information agency was carrying out its assigned mission, consistent with the intent of the Congress.

EIA's capability to continue to perform its functions deserves particular attention at this time. And I commend you, Mr. Chairman, for the attention you are giving it today.

During the past year, EIA has moved from a growing information organization to one striving to maintain its basic data systems and services. Dwindling EIA resources have resulted in sudden, drastic changes in its capabilities. Further reductions in EIA's personnel and the elimination of several major reporting requirements are proposed in the administration's 1983 budget submission. Also, the administration's proposal calls for a transfer of EIA's primary activities to the Commerce Department.

The funding levels provided in EIA's 1982 appropriation and those proposed for fiscal year 1983 substantially reduce Federal efforts in a number of key areas, including contingency planning activities. For example, in EIA's fiscal year 1982 budget, all activities in support of the Emergency Energy Conservation Act of 1979 were eliminated. These activities were to develop a State-level middle distillate monitoring system.

According to its fiscal year 1983 budget request, EIA would eliminate its energy emergency management information system as a separate system. One of the several purposes of the system was to provide a capability for assessing the impacts of supply interruption, with particular attention given to identifying impacts on industries that are either highly energy-intensive or are closely dependent on energy-intensive activities.

PART's most recent review provides a current perspective on EIA's operational environment and its overall performance, and it is admittedly broader than contingency planning activities.

The tentative conclusions of our review relate to EIA's independence from policy functions, organization and planning activities, usefulness of data and publications, and quality control procedures and statistical standards.

I would like to briefly discuss each of these now.

The independence of EIA's activities from the energy policy function was the predominate force behind its creation, the cornerstone of its enacting legislation, and a major success of its operations. By maintaining its independence, EIA has insured the objectivity and credibility of its work. EIA's reports have been independently prepared and its annual reports to the Congress are objective.

Nevertheless, we believe that EIA's independence and objectivity are jeopardized by the absence during the past several months of a centralized process for recording and monitoring requests for analytical services. Such a situation brought the independence of EIA's predecessor agency into serious question. While EIA had such a process at one time, it was not reinstituted after it reorganized in July 1981.

The process should include uniform procedures for assuring that all assumptions inherent in EIA's analysis are documented and fairly stated in the resulting written products. The EIA Administrator has assured us that he will take timely action to correct this problem.

Now, I would like to make a few remarks on organization and planning. In view of much more stringent budget and staffing levels, in July 1981 EIA decided that it could best respond to the new operational environment by reorganizing responsibilities for its functions. While we do not question this management decision, we believe that EIA gave insufficient attention to the staff requirements of its reorganized offices.

We believe that the technical nature of EIA's mission makes it essential that it is staffed with the proper number of professionals in a variety of specialized areas. Needed disciplines include statistics, economics, operations research, geology, and data processing. By assessing the number and types of employees it needs to carry out these specialized functions, EIA should be able to better insure that its services are being effectively and efficiently delivered.

With regard to planning activities, EIA has had chronic difficulties in developing effective long- and short-range plans to guide its management decisions. Planning problems continued during the past year, largely because the major budget and staff reductions made it more difficult to establish firm goals and objectives.

EIA is working to correct its planning problems and many actions being taken are promising. For example, since August 1981 it has implemented an annual operating plan and established a policy and planning review board.

Usefulness of EIA's data and publications is another subject of concern. The ultimate success or failure of EIA's work is determined by the usefulness of its products. The most direct way for EIA to satisfy the needs of the users is to take their views and suggestions into account when designing its data systems and publications.

Although EIA has conducted numerous data user studies most of the studies have had serious shortcomings. Also, a systematic approach to identifying user needs has not been developed. Data users have had only limited involvement in the development of new data systems, and studies of user needs have not provided an incisive assessment of immediate or future requirements.

Another issue concerns quality control procedures and statistical standards. As the Federal focal point for energy information, proper control, and documentation of the quality of EIA's statistical and analytical information is critical to EIA's mission. To insure the quality of its work, EIA must have uniform standards and procedures for determining the accuracy of its data systems. Although EIA has efforts underway, key quality control procedures and standards have not been established. For example, EIA has no uniform standard for validating its data systems or for assessing its models.

To a large extent, the quality of EIA's products is dependent on its compliance with statistical reporting standards. Complying with these standards is necessary to insure that EIA's publications provide sufficient information to allow readers to make informed judgments on how the data should be used and the limitations of the data. Our review in this area has mixed results.

The basic data in the publications reviewed are well presented. Nevertheless, our review of several publications shows that statistical standards are not being consistently followed. As a result, users of EIA's publications have insufficient information in several key areas, including the design of the survey, quality of the data, and limitations on how the data should be used. EIA has told us that its new Office of Statistical Standards will be assessing the quality of EIA's publications to bring about improvements in this area.

In summary, Mr. Chairman, budget restrictions have and will continue to constrain Federal energy information capabilities including those needed to understand and to deal with the consequences of supply interruptions.

The current funding environment presents very difficult challenges to EIA to insure that it will maintain its usefulness as a neutral source of comprehensive energy information.

EIA's ability to meet these challenges will depend to a large extent on how well it plans its activities and manages its limited resources. EIA must continue its efforts to develop a comprehensive planning process, improve its understanding of user needs and staffing requirements, and establish the standards and procedures needed to insure high quality data and publications.

Finally, independence from policy functions was a primary consideration in EIA's creation. It continues to be a vital concern. Although EIA has remained independent, quick action should be taken to improve internal procedures for controlling data analysis requests.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions you might have on PART or the results of its work.

Mr. **Sharp**. Thank you very much, Mr. Boland.

First let me turn to Mr. Peach. If we had a situation where the EIA obligation required us to try to reduce our demand by 7- to 10-percent, what kind of price level would it take to do that if we are relying strictly on the market? Have you any estimates as to what it would take for us?

Mr. **Peach**. I do not have any ready estimates, but I have some observations I can give you on that. You are talking about a 7- to 10-percent reduction. I think our experience so far in dealing with the price elasticity of demand for gasoline shows that there is adjustment that takes place, but in the long term, not necessarily the short term.

The question you would get is, OK, what kind of dislocation are we looking at as the market may adjust to the increased prices. I think the likelihood is you would not get the short-term adjustment as much as you would get a sharp runup of price.

One of the things we have suggested as a result of our past work is you should examine alternative allocation programs or other ways to deal with this kind of situation. For example, you could rebate to those people who would be hit more severely by price increases, amounts approximating the kind of impact the price limit would have.

We did recommend in our report that we study the tax rebate alternative more carefully. The Department of Energy, in their comments coming back, responded that this would be an area they would examine more carefully.

Mr. SHARP. So, in other words, if I understand you correctly, one of the problems we will face is we cannot expect a rapid reduction, necessarily, even if you have an extremely high price rise in order to genuinely bring a reduction in use.

I think you found with the 1979 price increases that they did lead to conservation and energy efficiency improvements, but they did not all happen for 6 months.

Mr. PEACH. What you are dealing with is the long-term adjustment to that kind of a price increase that would take place as compared with a short-term adjustment. I think our experience with long-term adjustment to higher prices in the field of energy have shown that we have a greater adjustment than we thought, but it takes place over a period of time. It is not something that necessarily takes place within the first few weeks or months.

Mr. SHARP. Let me ask you, one of the things Congress anticipated or sought to provide was a way in which to bring the States into a demand restraint program. So we passed the Emergency Energy Conservation Act to establish the possibility of State goals. But the Federal Government would set goals for the States, for example, a 5- or 10-percent reduction in energy use.

Is there any way this is being implemented? Is there any way we can expect this administration to carry that out?

Mr. PEACH. Our current understanding of DOE's position is they do not plan to carry out a demand restraint program. There was some initial work started in the area several years ago.

One of the flaws we found in looking at demand restraint programs was that while it required some initial work, the general timeframes we were able to draw up showed that after an emergency occurred it could be as much as 165 days before the demand restraint programs would go into effect.

This was because there was a requirement to give the States some time to develop their plans fully after an emergency occurred and time to review and test the plans. And it was up to a 165-day lag period before the alternate Federal plan would go into effect if the State plan proved to be inadequate.

What we suggested in our report is if you want to do demand restraint planning, you should have the plans developed, tested, and ready for implementation before the emergency occurs. It saves time to implement demand restraints quickly after an emergency occurs. And a 5- to 6-month lag period does not seem quick. You can imagine what would occur during that period.

Mr. **Sharp**. To your knowledge, have there been many States who have taken an interest in developing plans required by EECA to meet the potential shortfall.

Mr. **Peach**. Not very many. There has been some activity occurring at the State level. But the situation many States have seen over the course of the last few months or the last year is that there is not going to be any overall umbrella under which demand restraint planning will take place and then flow down to the State level for their own State plan development and implementation. Can States do it alone by themselves? Can they really fill that vacuum? I think that questions how you can expect each State to independently react with its own plan without any overall umbrella.

Mr. **Sharp**. In the process of your study, did you survey opinion as to whether or not you could really develop an effective demand restraint program?

Mr. **Peach**. The net result of our work was, yes, we think you can do things effectively in the demand restraint area. Our suggestion in the report was that much can be done with good public information programs and well-designed programs that are designed to be voluntary in nature.

You would want to look at the question of having more mandatory programs as a fallback if the voluntary programs did not prove to be adequate. But we did suggest looking more at the voluntary programs initially.

I think demand restraint is looked at something you can do if you run into a shortfall situation in the very short term in order to counteract the shortage that you would be dealing with.

Mr. **Sharp**. Is there any indication that the Department of Energy is in any way prepared to run a public information program if we have a major shortfall?

Mr. **Peach**. Our work would indicate no, we do not think they are prepared to run a major public information program. However, again, in looking at the response that the Department gave to our September report, one of the areas in which there was a favorable response was the development of a public information program in that area. So they did see some role for the Department in emergency preparedness in terms of public information programs.

Mr. **Sharp**. Mr. Boland, if we cut the budget and, as I understand it, one of the things we are told by the Department that would be eliminated with the budget proposal would be the ability to prepare quick-response analyses, or at least that would be reduced, I would assume that part of what is needed for a public information program to be effective is as good an information base as possible. Perhaps I am wrong, and they merely plan to stand up and say, "Use less."

But what is your assessment of the ability of the Department to respond in even a public information role if we carry through with the direction EIA appears to be headed?

Mr. **Boland**. I think the short answer, Mr. Chairman, is that the Department should be doing more to prepare for the energy information needs that come about. When you have a crisis, an emergency situation, as I said in my testimony, a quick-response capability is needed. You do not have much time to marshall your data systems, integrate those systems, and tie them in to State capabilities to make things work efficiently.

EIA has a lot of information. What is puzzling to people when they look at what is available is to understand why more has to be done when they see the volumes of information in some 65 data systems. EIA has a lot of information that would be useful and it plans to continue collecting and publishing some of that information.

I think the key with regard to contingency planning is to design an integrated system and put it into place or at least minimally test it to make sure it will work when it is needed. That is where the energy emergency management information system played a role. This system is now proposed to be eliminated in the 1983 budget.

Mr. **Sharp**. My experience with the Iranian crisis and the natural gas crisis and the coal crisis was that one of the most important things that good political leadership is called upon to do is to provide some public understanding of where we are and where we are headed, even though that is difficult to do. And I get the real sense that there is not an appreciation for how Congress in its wisdom or lack thereof will demand—demand—to know what is going on.

It does not matter whether they are conservatives, liberals, Democrats, Republicans, or who is in the White House. They will call up the Department day in and day out, even if it is located in the White House, and ask why do you not know?

Perhaps you have been the recipient of some of those calls from Congress when it was trying to find someone who understood what was going on. It strikes me as shortsighted in providing effective leadership if the answer to the American public is, we have abandoned the ability to know that. I think that will not be acceptable to a lot of people.

Mr. **Boland**. I might add, the data problem is a very difficult one to understand. It all goes back to what is needed at particular times, how much of a burden it is to acquire that information during noncritical times and how affordable it is. We have all experienced in some form or fashion the results of emergency crises like gasoline shortages.

I guess, on balance, you are saying that we will never have all the information needed to satisfy all parties. But there are some minimal limits that are clearly understood, based upon those situations that have already happened. I will cite some examples.

If you want to know where products are, gasoline products, oil products, or middle distillates at a secondary level not just at the major refiners, that information will not be readily available. It goes back to how much is affordable.

Mr. **Sharp**. It would be available if we retained the basic EIA requirements?

Mr. **Boland**. Some of the information on oil stocks would be available. Information on middle distillates at a State level would not be available under the 1982 budget proposal.

Mr. **Sharp**. I think there is probably a need for all of us in Congress to be able to deal with the public and to have an understanding of what the practical limits are no matter how much we are willing to pay for information. There is always a timelag and there is always difficulty with this vast industry and this vast economy of ours to begin to know what is totally going on.

But it strikes me we ought to have the general picture, and there are some very specific things we can know about, major industrial users, major refineries. And that kind of information is useful to policy judgments.

One thing that strikes me is that we are setting ourselves up for reinstitution of major price and allocation controls, contrary to what the administration and others advocate, not by signing the bill we are trying to get the President to sign on allocation price controls but because if we abandon the ability to do any marginal or preliminary kinds of activities with fuel switching, demand restraint, or management of the private stocks in integration with the public stock program, we pretty well put Congress in the position when it has nothing else to do when it gets to a crisis, of saying, well, for pete's sake, allocate, we must have it for the farmers, we must have it for the industry or whoever it is. And whether that is smart policy or not is anyone's guess at that time.

But at that time, people will not ask that question, they will say, let us act. I think it behooves us to find what preliminary steps can be taken to avoid that, because frankly I do not think we would be very happy with the full-range program of allocation down to the last tank of gas.

But it strikes me that we put ourselves in that political position when the response is, that is all we have left to do and that is all we are ready to do. And Congress will mandate all kinds of things.

Let me ask a couple of more questions, if I might, Mr. Peach. The administration had said in one of their reports last July that they plan to develop a crude-sharing program among the international oil companies in the event our obligations to IEA were triggered. Is there any indication that they have done that?

Mr. **Peach**. That is an area we have not specifically examined, Mr. Chairman. At your request for the record or in a subsequent letter, we could examine that and provide some information to you.

Mr. **Sharp**. I think that would be useful. We will at a later point be more interested in specifically IEA itself. And I think in preparation for that, that might be helpful.

Mr. **Peach**. We could undertake a brief examination and provide you a letter on whatever information we can find out about its status.

Mr. **Sharp**. Let me ask you this. Among the other essential functions of the International Affairs Office at DOE what activities do they engage in with respect to international energy emergency preparedness?

Mr. **Peach**. From what we have found, as long as there is an International Energy Agency, and the United States as one of the major oil-consuming nations is required to interface and be a part of the proceedings of the International Energy Agency, then someone must carry out the staff work, making sure we participate fully and have the kind of input and impact on what that agency decides to do in the international forum. And the major organization doing that is the Office of International Affairs at DOE.

Mr. **Sharp**. In terms of any activities this past year with IEA, were we making presentations at IEA meetings?

Mr. **Peach**. Basically, a large portion of their work is doing the staff work and preparing position papers, the underlying analysis and information that helps us fulfill our participation in the international area.

Mr. **Sharp**. If I understand the issue correctly, that takes some special appreciation for how the international oil companies operate and how oil is distributed. It requires some technical knowledge beyond a mere generalized knowledge. Does that exist, to your knowledge, in the State Department? If we abandon the office, if I understand it correctly, we would also abandon those personnel as well who have built up an expertise which would be lost. If I understand it correctly, there is nothing of comparable scope in the Department of State and clearly there is no plan to move DOE's expertise across.

Mr. **Peach**. That is my understanding, Mr. Chairman. There was an interesting situation that came up that I refer to in my testimony. As a part of the budget process within the administration, we understand the Department of State asked for the funding to provide 20 staff-years to pick up the international energy function, including the major interface with the IEA.

Now, our understanding is that that proposal went to the Cabinet-level council within the administration, and the feedback given State was they did not want to approve that request. They preferred to keep the emergency preparedness measures pulled together and occurring within the Department of Commerce, consistent with their proposal to move most DOE functions to Commerce.

So they wanted to keep the international functions together with other related kinds of emergency preparedness measures, and within Commerce.

Mr. **Sharp**. Yet, no provision was made within the proposal regarding a shift to Commerce, to move that group over there, so the proposal may purport to centralize the function, but in fact it merely transfers responsibility with no provision made to staff adequately with experienced people.

Mr. **Peach**. A great deal of it is being phased out. The numbers are being reduced substantially in terms of people who would move. As the organization proposal goes, the function will be moved but the number of people who will be involved in doing the function will be far less.

Mr. **Sharp**. The number of people requested by the State Department, 20 years, what was that, 20 staff-years?

Mr. **Peach**. 20 staff-years.

Mr. **Sharp**. How does that compare with what DOE has been running, do you know?

Mr. **Forcier**. The Department of Energy had 18 staff-years to IEA functions and 12 of them were in the Office of International Affairs. Those 12 would be abolished. The other 6 would be transferred over to the Commerce Department.

Mr. **Sharp**. Let me recognize Mr. Tauke, who came in first.

Mr. **Tauke**. Mr. Chairman, since I did not hear the testimony of the panel and did not have an opportunity to listen to all of your questions, I will not ask questions now. But I do want to reiterate your comments about emergency preparedness.

My concern is also that if nothing is done in that area, we invite massive Government intervention during times of crisis, and it occurs to me that the actions of Congress over the past several months have been designed to prevent Government involvement in the marketplace by trying to plan ahead to prevent crises. If we do not have any efforts underway to prevent crises, I suspect when they come Congress will react as it usually does by having a massive program of Government intervention. And that is what we should be working to avoid.

So I want to commend the chairman for those comments and join him in making those observations. I thank you for the time, Mr. Chairman.

Mr. **Sharp**. The gentleman from Texas, Mr. Collins.

Mr. **Collins**. Thank you, Mr. Chairman.

We welcome your group discussing with us possible budget reductions—a subject of deep concern for us in Texas. We hope you will be able to cooperate and make some substantial savings. Everyone is talking about the budget, but no one wants to find ways to cut it. I do not know what the deficit will be. You hear it is $100 billion; then they forget to put in the $20 billion of off-budget items, another $20 to $30 billion is supplementary, so it may be $150 billion.

But everything about the budget is Government spending. And I was concerned the other day when Phil Gramm, who is on our committee, and whom we consider the best economist in Texas, said 52 percent of the money borrowed in this country today is borrowed by the Government. That leaves very, very little money for the private sector which must operate and earn enough to pay the taxes to keep that Government going.

Well, after that statement, I wanted to know if we really need all of these information services we have. To start with, how many economic computer models do we have in the Government that deal with energy?

Mr. **Boland**. I can speak to the Energy Information Administration.

Mr. **Collins**. What do you have there?

Mr. **Boland**. It has about 65 systems.

Mr. **Collins**. 65?

Mr. **Boland**. About 65. A number would be eliminated under the 1983 budget proposal by the administration. Some of the largest-scale models involving mid- and long-term analyses would be eliminated. All that EIA would be left with would be a short-term analysis capability.

Mr. **Collins**. We heard the State Department had about six, all told. Is that true, or would you know?

Mr. **Boland**. I would not know that.

Mr. **Peach**. I would not want to hazard an estimate as to the total number of models that exist, because there are, as we have seen, a good number of agencies that still continue to be in the business of collecting bits and pieces of information in the energy field, including the CIA, which collects a good deal of information domestically and internationally.

Mr. **Collins**. Would you provide four or five examples where there have been major contributions to our understanding of our domestic energy market directly from original information and analysis collected by the EIA and which would not have been available from the many private organizations which also collect and analyze energy data?

Mr. **Boland**. I cannot speak to how useful it has been or what difference it has made in those terms. I believe what EIA has contributed since its existence is something that did not exist prior to EIA, that is, a neutral source of credible and objective information.

It is true, much of the information it collects exists elsewhere, certainly, from the primary sources. EIA's key function is to pull it together either in total or on a sample basis. It also performs some analysis to make the information understandable to the users, such as the Congress and the public at large.

I cannot come up with an example, but I am sure EIA would have a number of those. I believe EIA is a very useful organization. How much of the information it collects is needed and its usefulness is still a question that has not been resolved. And I guess that question may never be resolved.

Mr. **Peach**. If I could add an historical footnote which builds on what Mr. Boland said, one of the reasons the Energy Information Administration was created originally was because of all of the turmoil that existed in the mid-1970's over whether or not we had an energy crisis or whether it was being manufactured or manipulated by the oil industry or others, whoever you might want to feel was manipulating it.

But it was a drive toward saying, let us set up something and, hopefully, establish it in a manner so that the information presented can be viewed by all as objective and credible and therefore reliable, not just from industry or other sources.

One of the things that has happened that would be a gap is in some cases industry has stopped collecting data that it was collecting because of EIA's involvement, particularly information on reserve additions.

And what is happening in that area in both oil and natural gas that were previously collected and published on an annual basis by the American Petroleum Institute and the American Gas Association, they have been efforts that have been curtailed as a result of EIA's entry and the development of a system in that area.

Those were the kind of statistics being challenged because it was coming from the industry as not being objective. That is a historical footnote as to how we got where we are.

Mr. **Collins**. That is very interesting. Part of the reason why private industry is not collecting as much data is that their profit margins are thinner and they are responsive to economics, whereas the Government is not responsive to anything.

I want to go back to the historic statement you made, because I am so familiar with it.

I was the ranking Republican on the Oversight Committee. We had a chairman who took great exception to any data advanced by any private industry sources. They collected at that time, and maybe you were familiar with the study that was made, they filled up a warehouse down here and brought armored trucks with important reserve figures on how much gas was available, and they were trying to prove there had been some collusion in the withholding of gas and some collusion regarding reserves.

The committee spent 1 year in this Government study, and their conclusion was that there had been no withholding of information, that everything they had was basically true, and that private companies had not tried to withhold gas. But the interesting part was this. When the committee reached its conclusions, they didn't even tell me on the other side of the aisle what they found out. I found out about it indirectly.

The chairman of our committee, who was also the author of the Freedom of Information Act, did not want to furnish that information to the general public and we had to fight for it on the House floor to get him to release the fact that after having studied for 1 year, the committee found no fallacies and no errors in the private industry's reports and there had been no withholding of gas.

I know you are right about what caused the energy shortages of the 1970's. But we are now through that transition period and are in a better oil market and have greatly reduced crude oil imports. None of these achievements resulted from Government data collection. Instead, increased conservation and lower imports are a direct result of firms and individuals rationally responding to realistic price signals in the market.

None of this came through with these Government figures; it all came through from private industry simply meeting the response, and I am hoping we can use this as one place to cut back on the budget.

Thank you, Mr. Chairman.

Mr. **Sharp**. Thank you, gentlemen. We appreciate your helpful testimony here. We may have some additional questions in writing.

I do not know if either of you had another comment on anything raised here. If you do, we would be happy to hear from you now. Otherwise, we may call upon you with specific questions.

Mr. **Forcier**. May I comment, Mr. Chairman, on the overall question of emergency preparedness in the oil market in general. As you know, the newspapers every day are carrying stories of how soft the market is and that the oil crisis is over. As a result of that, it is very difficult to get anyone's interest on the question of emergency preparedness.

But one thing I urge you to keep in mind is that while there is widespread confusion and disagreement among the experts within the industry and those who observe the industry as to where the market is headed in the long term, almost every study I have seen or any serious analysis of it indicates it could turn around instantaneously if there is a disruption in the Middle East, some sort of a political problem.

In a sense, I think the soft market we now have increases the likelihood of that type of situation because it increases the tension in that area. There have been reports also within the last few days of Libya and Iran threatening Saudi Arabia, and I think keeping in context, whereas our imports are down right now and we have diversified our sources to some extent, something like 60 to 65 percent of the free world's oil reserves remain in the Middle East and north Africa.

So, to the extent we are going to be importing oil for the long haul, we are going to be importing oil from the Middle East and those areas of the world where we have difficult conditions. I think that increases the likelihood of a disruption. As you consider what to do with emergency preparedness, I would urge you to keep in mind that disruptions are likely.

Mr. **Sharp**. I appreciate that, and I think the difficulty we have is when you poll most members of the committee, they share the view that it is likely, but you can tell from the turnout, both in the audience and in the committee this morning, that there are other things of greater interest at this given moment, a situation which we have been through several times in the last decade, it seems. The difficulty is always to get people's attention.

We obviously have desperate budget situations and other kinds of issues. As Mr. Boland raised, what is sensible for us to collect at this point in time in order to enhance our ability to respond? I see that the former Secretary of Energy in the Post yesterday declared the oil crisis is over until the next oil crisis, and our problem is we do not know exactly when it will be.

But most people tell us it is likely there will be one. I notice the Wall Street Journal carried a lead news article last week or the week before about the widening Iran-Iraq war and its potential to put us right back into a serious oil situation internationally.

Mr. **Peach**. I would add I think one thing is certain based on past experience for those who have been in this town the last 10 years. When there is another oil crisis, there will be greatly accelerated activity around this town. The time to act, to look at emergency preparedness is now while we have a slack market situation and we are under no pressure, and to make commitment to developing the kinds of coordinated plans and activities that are needed. If we do not do that, the likelihood is greatly increased that we will end up with hasty, ill-conceived actions when the next emergency period occurs, and we will not be satisfied with the results when it is all over with.

Mr. **Sharp**. Well, thank you very much, gentlemen.

[Testimony resumes on p. 59.]

[The following letter and response were submitted:]

NINETY-SEVENTH CONGRESS

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**SUBCOMMITTEE ON FOSSIL AND SYNTHETIC FUELS**
**COMMITTEE ON ENERGY AND COMMERCE**
WASHINGTON, D.C. 20515

January 29, 1982

Mr. Charles A. Bowsher
Comptroller General
General Accounting Office
441 G Street
Washington, DC 20548

Dear Mr. Bowsher:

One issue which has been debated extensively in the Congress is the extent to which the nation is prepared to handle a major energy emergency. As you are aware, I have been concerned about this subject for quite some time and read with interest your recent report The United States Remains Unprepared for Oil Import Disruptions.

In that report GAO stated:

> "The U.S. Government is almost totally unprepared to deal with disruptions in oil imports. Oil import disruptions--such as the 1973 oil embargo and the 1979 Iranian shortfall--pose a significant threat to national security, and the lack of effective contingency planning and program development to date is serious and requires immediate attention.
>
> The Government must make a determined commitment to emergency preparedness now, while oil markets are slack, to prepare for any future disruption."

I share this view and am dismayed that the Administration appears intent upon submitting to the Congress a budget proposal which, even under a generous interpretation, would substantially curtail vital energy emergency functions of the United States. Many respected authorities in this area argue that such a course necessarily would affect the national security and would as well conflict with the spirit, if not the letter, of the International Energy Program agreement entered into by the United States and its allies.

Mr. Bowsher

The purpose of this letter is to request a supplement to your study which would address the following specific questions:

- In light of proposed manpower and other funding reductions in the Emergency Preparedness, Energy Information Administration and International Affairs' programs at the Department of Energy, to what degree and in what fashion would the problems outlined in the September 29, 1981 report be exacerbated?
- Under the proposed reorganization of the Department of Energy, in which the Department would be absorbed into the Departments of Commerce and Interior, what additional potential problems might be created in effectively planning for and managing the U.S. government's energy emergency functions?
- To what degree and in what fashion will the proposed budget and organizational changes affect our ability to carry out U.S. responsibilities under the International Energy Program; and does the Program require the U.S. government to have both the authority to institute mechanisms (other than price) for domestic demand restraint and fair sharing, as well as the actual means in place to implement such mechanisms on short notice?
- Beyond the authorities found within H.R. 4700 what additional actions should the Congress or the Administration take to ensure that we are sufficiently prepared to handle another energy emergency?

I am interested in having most if not all of these questions answered in time to utilize your recommendations during the budget cycle for the Fiscal Year 1983 budget. Therefore, I would like, at minimum, a letter report on at least the budget questions outlined above by March 1, 1982. I am aware that some of these questions may require more extensive research and evaluation on your part, but I am sure our staffs can work out any such problems.

Thank you for your cooperation on this vital issue. I look forward to your response.

Sincerely,

Philip R. Sharp
Chairman

PRS

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-206525

April 6, 1982

The Honorable Philip R. Sharp
Chairman, Subcommittee on Fossil
  and Synthetic Fuels
Committee on Energy and Commerce
House of Representatives

Dear Mr. Chairman:

In your letter dated January 29, 1982, you inquired whether the International Energy Program requires the U.S. Government to have both the authority to institute mechanisms (other than price) for domestic oil demand restraint and fair sharing of oil, as well as the actual means in place to implement such mechanisms on short notice. You also expressed interest in whether the spirit, if not the letter, of the International Energy Program might contemplate these actions. Other questions posed in your letter have been addressed under separate cover.

As you know, the Agreement on an International Energy Program (IEP), 27 U.S.T. 1685, T.I.A.S. No. 8278, entered into force provisionally on November 18, 1974, and into force definitively on January 19, 1976, was designed to facilitate coordinated and cooperative responses to short-term petroleum disruptions and long-term supply problems. It has now been signed by 21 oil consuming countries 1/ of the Organization for Economic Cooperation and Development (OECD), including the United States. A major purpose of the IEP is to provide for the allocating and sharing of available oil among participating countries during an international energy emergency. Both domestic oil demand restraint and fair sharing of oil are elements of this Emergency Sharing System, which is administered through the International Energy Agency (IEA), an autonomous organization of the OECD. The IEA's actions are directed by a Governing Board, composed of delegates from each participating country. The details of the Emergency Sharing System have been set forth in an Emergency Management Manual, which has been adopted by a decision of the Governing Board. This Manual is binding on all signatory countries by virtue of Article 52, paragraph 1, of the IEP. 27 U.S.T. 1712. Thus both the IEP and the Emergency Management Manual address the issue of United States obligations with respect to the Emergency Sharing System.

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1/ Australia, Austria, Belgium, Canada, Denmark, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States and West Germany.

With respect to your specific questions, we conclude that the IEP explicitly requires that each participating country have ready at all times a program of contingent oil demand restraint and provides for monitoring of these programs on a continuing basis. Under the Emergency Management Manual the elements and types of oil demand restraint measures rest with the individual participating countries. In addition, under the Emergency Management Manual the requisite degree of oil demand restraint (either 7 percent or 10 percent) is deemed to have been achieved by each country within 21 days of the declaration of an emergency, whether or not it has in fact been attained. This short time frame virtually demands that the instruments for petroleum demand restraint implementation be in place on a standby basis in advance of the emergency.

Nevertheless, as a matter of practical reality, under the formula by which oil would be shared internationally by the IEA countries, the failure of a participating country to implement effective oil demand restraint measures would not affect the calculations of allocation rights and obligations of member countries. The primary consequences of a participating country's not achieving the required oil demand reduction would be felt by that country itself in the form of an aggravated domestic oil supply shortfall.

On the other hand, fair sharing of oil is not an explicit legal requirement of the IEP, but it is set forth as an objective of the program during international oil allocation. Under the Emergency Management Manual the responsibility for assuring fair sharing likewise rests with the individual participating countries. However, regardless whether fair sharing is legally required, it is doubtful that the Emergency Sharing System would work without a fair sharing system within the United States.

## DEMAND RESTRAINT

Article 5, paragraph 1 of the IEP, 27 U.S.T. 1693, provides:

> "Each Participating Country shall at all times have ready a program of contingent oil demand restraint measures enabling it to reduce its rate of final consumption in accordance with Chapter IV [which includes Articles 12-24 and relates to the activation of the international allocation system]." (Emphasis added.)

Thus the demand restraint provisions of the IEP are couched in mandatory terms, and Article 12 of the IEP explicitly so characterizes them. 27 U.S.T. 1697. However, as discussed below, failure of a given country to implement demand restraint measures would have no impact on its allocation rights in the event of an emergency.

The required contingent capability for oil demand reduction is set forth primarily in Articles 13 and 14 of the IEP. Article 13, 27 U.S.T. 1697, provides:

> "Whenever the group 2/sustains or can reasonably be expected to sustain a reduction in the daily rate of its oil supplies at least equal to 7 percent of the average daily rate of its final consumption 3/ during the base period, 4/ each Participating Country shall implement demand restraint measures sufficient to reduce its final consumption by an amount equal to 7 percent of its final consumption during the base period, and allocation of available oil among the Participating Countries shall take place * * *." (Emphasis added.)

Article 14 similarly provides for mandatory oil demand restraint of 10 percent by each participating country whenever the group oil shortfall is at least equal to 12 percent. 27 U.S.T. 1697.

Under the Emergency Management Manual, participating countries have flexibility in their choice of measures to be used to reach mandated oil demand restraint, but these measures must be in addition to those that may have been in effect before the emergency.

In recognition of the significance and importance of contingent oil demand restraint capability, the IEP contains specific provisions for monitoring. Article 5, 27 U.S.T. 1693, provides, in part:

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2/ All 21 member countries taken as a whole. See Article 1, paragraph 3, of the IEP, 27 U.S.T. 1691.

3/ "The term 'final consumption' means total domestic consumption of all finished petroleum products." Article 7, paragraph 8, of the IEP, 27 U.S.T. 1695.

4/ "The term 'base period' means the most recent four quarters with a delay of one quarter necessary to collect information." Article 18, paragraph 1, of the IEP, 27 U.S.T. 1698.

> "The Standing Group on Emergency Questions 5/ shall, on a continuing basis, review and assess:
>
> —each Participating Country's program of demand restraint measures,
>
> —the effectiveness of measures actually taken by each Participating Country.
>
> "The Standing Group on Emergency Questions shall report to the Management Committee, which shall make proposals, as appropriate, to the Governing Board. The Governing Board may, acting by majority, adopt recommendations to Participating Countries."

We recognize that a "recommendation" of the Governing Board, as contrasted with a "decision," is not binding on participating countries. See Article 52, paragraph 2, of the IEP, 27 U.S.T. 1712. Nevertheless, the failure of a participating country to have an effective contingent oil demand restraint program could violate its commitment under Article 66 of the IEP, 27 U.S.T. 1719, as well as the demand restraint provisions referred to earlier. Article 66 provides:

> "Each Participating Country shall take the necessary measures, including any necessary legislative measures, to implement this Agreement and decisions taken by the Governing Board."

Nevertheless, as a matter of practical reality, the failure of a participating country to implement effective contingent oil demand restraint measures would not affect the calculations of allocation rights and obligations of member countries during an international oil allocation. Article 7 of the IEP, 27 U.S.T. 1694, provides that:

> "When allocation of oil is carried out * * *, each Participating Country shall have a supply right equal to its permissible consumption less its emergency reserve drawdown obligation.

* * * * *

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5/ The Standing Group on Emergency Questions is composed of one or more representatives of the Government of each participating country, and performs an advisory role with respect to the Emergency Sharing System. See Articles 54 and 55 of the IEP, U.S.T. 1713.

> "The term 'permissible consumption' means the average daily rate of final consumption allowed when emergency demand restraint at the applicable level has been activated; possible further voluntary demand restraint by any Participating Country shall not affect its allocation right or obligation. * * *" (Emphasis added.)

The Emergency Management Manual, which supplements this language, provides that the demand restraint obligation is deemed to be fulfilled in each participating country within 21 days after a finding that the oil supply shortfall is sufficient to trigger the activation of the international oil allocation system. This is so regardless of whether the actual level of demand restraint is higher or lower in any participating country.

The effect of these provisions is to render the "mandatory" contingent oil demand restraint requirements of the IEP and the Emergency Management Manual self-enforcing from the perspective of the IEA participating countries as a group. That is, if a participating country fails to achieve the required domestic oil demand restraint during an international energy emergency, it will not as a consequence receive any more or less oil in the international allocation process than it would had it fully achieved the required domestic oil demand reduction, regardless of the additional adverse impact on its domestic economy. Neither will its allocation obligation be reduced if the calculations indicate it has an obligation to supply oil to other member countries. Achievement or non-achievement of the required domestic demand restraint is a neutral fact in the calculation of allocation rights and obligations and in the implementation of international allocation, because each country will be deemed to have fulfilled its obligation whether or not it actually has. Thus no participating country will benefit vis-a-vis the other members by failing to conscientiously implement effective domestic oil demand restraint measures.

The primary consequences of a participating country's not achieving the required oil demand reduction will be felt by that country itself. Its domestic oil supply shortfall will be effectively up to 7 percent or 10 percent greater than that of other member countries which have reduced demand, yet for allocation purposes this difference will not be taken into account. This may serve to aggravate a given country's domestic oil supply situation and exasperate its oil consumers, particularly if the country is required by the IEA Emergency Sharing System to divert or ship oil supplies to other member countries, despite the fact that the oil may be very much needed domestically.

Another significant factor about the oil demand restraint obligation is the short time frame within which the required reduction is to be achieved. Under the Emergency Management Manual, the requisite degree of oil demand restraint is deemed to have been achieved by each participating country within 21 days after a positive finding by the IEA that the oil supply shortfall is sufficient to trigger the activation of the international allocation system, whether or not the required demand reduction has in fact been attained. Twenty-one days is too short of a period to enact legislation, hire and train professional staff, and implement demand restraint measures for an economy the size of the United States with oil consumption the size of that within the United States. Therefore, realistically, the instruments for petroleum demand restraint implementation would have to be in place on a standby basis as contemplated by Article 5, paragraph 1 of the IEP, in advance of the emergency if the required demand reduction were to be attained within the 21-day time frame set forth in the Emergency Management Manual.

## FAIR SHARING

As you know, in the context of the IEP and its Emergency Sharing System, fair sharing refers to the distribution of available oil among petroleum companies operating within any one participating country so that no one petroleum company is disproportionately penalized or benefited due to its authorized actions taken to implement the IEA Emergency Sharing System. Such fair sharing among oil companies is not a legal requirement of the IEP, yet it is one of the objectives in implementing international allocation. Paragraphs 3 and 4 of Article 9 of the IEP, 27 U.S.T. 1696, provide:

> "Insofar as possible, normal channels of supply will be maintained as well as the normal supply proportions between crude oil and products and among different categories of crude oil and products.
>
> "When allocation takes place, an objective of the Program shall be that available crude oil and products shall, insofar as possible, be shared within the refining and distributing industries as well as between refining and distributing companies in accordance with historical supply patterns."

Thus lack of an explicit legal requirement does not necessarily reflect that fair sharing is not vital to the viability of the Emergency Sharing System.

The Emergency Management Manual places responsibility for fair sharing or correction of imbalances between companies on member governments out of recognition of the differences among member governments with respect to antitrust laws and competition. Thus to the extent that fair sharing is to be assured among companies, it is the responsibility of the individual governments of participating countries.

Realistically, regardless whether fair sharing is legally required, it is doubtful that the existing IEA program for international allocation of oil during an emergency would work without fair sharing.

The Emergency Sharing System is based on the premise of active, voluntary participation by the international oil companies of IEA member countries in the international allocation process. During emergencies their widespread networks of facilities and their established organizational competence and experience in the international logistics of oil movement are crucial to the effectiveness of the System. It was planned that the government and the oil companies would work together in a spirit of constructive cooperation. See, e.g., "International Energy Program," Hearing Before Senate Committee on Interior and Insular Affairs, 93d Cong., 2d Sess. 14 (Nov. 26, 1974) and "U.S. Policy and the International Energy Agency," Hearings Before the Subcommittees on International Organizations and Movements and on Foreign Economic Policy, House Committee on Foreign Affairs, 93d Cong., 2d Sess. 43-59 (Dec. 18-19, 1974). Consequently, most member governments have not, as a matter of policy, attempted to duplicate the extensive facilities or expertise of the international oil companies.

This expectation of oil company voluntary participation in and implementation of the international allocation process was woven into the fabric of the Emergency Sharing System. For example, three types of transactions are contemplated in implementing the existing IEA system of international oil allocation, two of which are voluntary on the part of the international oil companies. After the IEA calculates each participating nation's allocation right or allocation obligation by a formula set forth in principle in the IEP and detailed in the Emergency Management Manual, the three types of transactions are successively phased into the allocation process depending on the seriousness of the emergency.

—A type 1 transaction is where the 47 IEA reporting oil companies (21 U.S. and 26 foreign companies) voluntarily rearrange their own individual supply schedules to satisfy country allocation rights and allocation obligations by appropriate redirection of oil within each's own supply and distribution system. It is essentially a continuation of normal commercial transactions by the oil industry, but with an eye towards satisfying member country allocation rights and allocation obligations.

—A type 2 transaction is also a voluntary company transaction, but one facilitated through the auspices of the IEA. Voluntary oil company offers to sell oil are submitted to the IEA, which also receives other voluntary oil company offers to buy oil. The IEA attempts to match these voluntary offers to result in a transaction which will help satisfy country allocation rights and allocation obligations.

—A type 3 transaction is not voluntary but is imposed by direction of the IEA through the member governments. Member governments with allocation obligations (or members with jurisdiction over particular oil companies) must order a company or companies to ship oil to countries with allocation rights. A type 3 transaction would only be initiated if the voluntary type 1 and 2 transactions prove to be inadequate means of satisfying country allocation rights or obligations.

Type 1 and 2 transactions, both of which are voluntary, are expected to take care of the vast majority of country allocation rights and obligations. Only in the event of remaining allocation imbalances would a type 3 mandatory allocation transaction occur.

However, these proportions could become dramatically reversed if disincentives were to develop in the system which serve to deter voluntary reallocation on the part of the oil companies. The absence of assured fair sharing of available oil among petroleum companies operating within individual participating countries would be precisely such a disincentive. Few companies would likely volunteer to divert shipments of oil destined for their customers in country A to another IEA member country, if, by doing so, (1) they would not be able to supply their own customer contracts in country A, and (2) a competitor oil company in country A, who did not volunteer to divert oil shipments to other countries, would be able to continue to satisfy its normal customers and perhaps obtain a competitive edge with respect to the normal customers of other companies. Voluntary company participation in the implementation of the Emergency Sharing System would, therefore, likely be minimal or nonexistent in these circumstances.

The absence of type 1 and type 2 voluntary transactions would mean that all of the international reallocation of oil to satisfy member country allocation rights and allocation obligations would have to be individually mandated by member governments. Neither the IEA nor member governments are likely to have sufficient professional staff, expertise and resources to study and order all the necessary reallocation transactions during an international energy emergency.

The designers of the Emergency Sharing System, by building company voluntarism into the system, hoped to obviate the need for governments to duplicate the resources of the international oil companies as well as minimize government intervention in the private international petroleum market. See, e.g., "International Energy Program," supra, and "U.S. Policy and the International Energy Agency," supra. The absence of effective fair sharing programs within member countries would conflict with these objectives and would tend to undermine the whole Emergency Sharing System. The System could well fail due to the unintended massive quantity and complexity of decisions and responsibilities placed upon the IEA and member governments within severe time constraints and crisis conditions.

In addition, with specific reference to the United States, a fair sharing system among companies operating within the United States is particularly crucial to the Emergency Sharing System. Five of the seven largest international oil companies are American (Exxon, Gulf, Mobil, Socal, and Texaco), and 21 of the 47 IEA reporting companies are American companies. If these American companies did not actively volunteer and participate in the implementation of the Emergency Sharing System, the voluntary aspect of the System would likely collapse.

Therefore, even though fair sharing may not be a legal requirement of the IEP, it is doubtful that the IEA Emergency Sharing System would work without effective fair sharing systems within individual participating countries.

Sincerely yours,

Milton J. Socolar

for Comptroller General
of the United States

Mr. **Sharp**. Our next witness is Mr. Richard Kessler, the Deputy Director of the Energy and National Security Project of the Georgetown Center for Strategic and International Studies.

Welcome, Mr. Kessler. We are happy to have you with us.

## STATEMENT OF RICHARD JOHN KESSLER, DEPUTY DIRECTOR, ENERGY AND NATIONAL SECURITY PROJECT, GEORGETOWN CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. **Kessler**. Thank you, Mr. Chairman.

If I may, may I allow my prepared statement to be entered into the record, and I would like to make a few additional comments.

Mr. **Sharp**. Certainly.

Mr. **Kessler**. To begin with, I would like to cite from the conclusion of a July 23d article of the Washington Post Sunday "Outlook" section, which captures the prevailing view of the world energy situation: "The possibility of an abrupt oil shortage is now considered unlikely for at least 12 to 15 years. The shock of another sudden price escalation likewise will not threaten Western nations before the 1990s."

The article goes on to cite several other issues concerning the current world energy situation. For example, an investment banker is quoted as stating the tremendous downward pressure on OPEC prices will continue because of increased exports from Mexico and other free world sources.

In addition, the report of a group of leading energy experts is cited as concluding that "It is unlikely there would be any sharp and sudden upward movement in real prices of oil for at least the next 10 to 15 years."

Now, this does not seem too outstanding an article, but I think it should be remembered this article was published not on July 23, 1981 but on July 23, 1978, and we all understand what resulted shortly thereafter. The point, of course, is that sudden disruptions by their very nature cannot be predicted, and uncertainty in the world will continue to increase, not decrease, and therefore we should be prepared.

In terms of the current outlook for the budget proposals for fiscal year 1983, I really do not have much more to add to what previous witnesses have stated this morning. I certainly agree with them in all of their conclusions and in the importance they attach to contingency planning.

I would like to underline that I think it is very important that the drawdown policy for the strategic petroleum reserve be developed, and I do not see that in the budget. I am also very concerned about the International Affairs Office of DOE. I think that also should be continued. But we can perhaps get into that in the question period.

I would now like to make a few observations. My colleague, Dr. Charles Ebinger, and I recently returned from 2 weeks in Europe. We returned late Saturday. While we were there, we talked with many key European policymakers, members of the oil industry as well as military planners, and the impression we obtained from our discussions there was in Europe there is a deep concern over energy and security, a deep concern over the necessity for maintaining contingency planning, and also a deep concern for the lack of direction in U.S. policy in energy matters.

Now, I think we must again look at the global perspective in terms of contingency planning. If the United States is not going to embark on any effort in this area in terms of planning for disruptions, in terms of an awareness of the importance of international energy issues, we will see our members in the alliance diverging from us in this area as well as many others.

It must be remembered that Western Europe and Japan will continue to be highly dependent on oil imports from the Middle East and highly dependent on maintaining the security of those supplies. Now, as we see today, U.S. oil imports from the Middle East are declining, in some estimates perhaps less than 1 million barrels per day.

Europeans are concerned that with this kind of decreasing dependence on the Middle East, there will be less U.S. interest in maintaining the security of oil supplies in the Middle East as well as in other areas, and when another disruption occurs, the likelihood is the United States may decide it has no reason to take action.

Our allies, therefore, are, as we see, moving in different directions in terms of Middle East policy. They are concerned about the U.S. lack of support for the International Energy Agency. They are pushing strongly for some subcrisis mechanism, and as I understand, you will have Dr. Lantzke from the IEA here tomorrow, I hope you will get into the issue of the subcrisis mechanism.

They are moving into a proposal of forming an industry and government stockpile for Europe. I think these are areas in which we should be concerned, and as I see in the new budget proposal, we are not investigating these alternatives.

In conclusion, I would like to make several remarks concerning the strategic petroleum reserve, which has been the cornerstone of our contingency planning effort. I think this is a very important cornerstone but it is not enough. As the previous speakers have mentioned, it is important that issues of demand restraint policy be addressed by the Federal Government as well as by State and local governments.

In terms of looking at the SPR, as well as the bill which has recently been passed, the Standby Petroleum Allocation Act, a concept I certainly support, I think it is a good idea. You must look at these ideas as not destroying the market, not interfering with the market, but protecting the market. The very fact that the Government now has an SPR is implicitly an interference in the free market system.

This is not to destroy the market. We all support the SPR. It is to maintain the proper function of the market in a disruption. We must understand that the point of the SPR is to protect the market from the rapid swings of prices which wreak so much economic havoc and whose cost is so great for us to bear.

Thank you very much for listening to me, and I would be glad to answer questions.

[Testimony resumes on p. 69.]

[The prepared statement of Mr. Kessler follows:]

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# ENERGY EMERGENCY PREPAREDNESS AND INTERNATIONAL ENERGY AFFAIRS: THE NEED FOR NEW DIRECTIONS IN U.S. POLICY

Richard J. Kessler*

Thank you Mr. Chairman and members for the opportunity to appear before you today. Contingency planning to date has taken a back seat to other issues in the development of national energy policy, even after the 1973-74 oil embargo. This should not be. In large measure, current economic difficulties are the result of higher oil prices caused by only moderate shortfalls in oil supplies. At the start of the 1970's energy analysis looking into the future predicted on excellent outlook for oil supplies. No one foresaw the 1973 embargo or the 1979 collapse of Iran or the 1980 war between Iran and Iraq. Today some people are arguing that the next few years will see continuation of the present oversupply of oil if no unforeseen events occur.

If the past is any guide to the future, the world will experience other oil supply disruptions. And, if present policies continue, the United States will be ill-prepared to deal with them. The issue is whether or not this nation is going to be prepared to cope with future energy crises.

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* This testimony is based partially on research conducted for the Program on Energy and National Security at the Center for Strategic and International Studies, Georgetown University, and published in The Critical Link: Energy and National Security in the 1980s, Ballinger Publishing Co. Cambridge, MA. 1982

In the early days of the Reagan Administration there were encouraging signs that the government finally was taking seriously the importance of contingency planning. An Office for Environmental Protection, Safety and Emergency Preparedness with the Department of Energy was established. The fill rate of the Strategic Petroleum Reserve was accelerated. Yet, today, the President has done an about face in preparing the nation for future crises. This policy change must be of grave concern to everyone interested in America's economic and national security. As my colleague, Dr. Charles K. Ebinger, states if present policies continue this can only be a "prescription for disaster in the decade."

The creation of an Assistant Secretary for Emergency Preparedness must be applauded but why do the office's responsibilities include environment and safety? Surely the responsibilities are grave enough to necessitate unique attention. Now in a period in which energy security remains a principal issue in the capital's of our allies, the budget for DOE's emergency preparedness program is halved from $10.2 million in 1982 to only $5.4 in 1983. This is incomprehensible. At the same time the office of International Energy at DOE is being eliminated by budgetary fiat and the programs of the Energy Information Administration reduced further. These are functions intrinsically linked to support of emergency planning.

The fill rate of the Strategic Petroleum Reserve is declining precisely at the time when it should be increasing. To quote the Administration's motto: "Let the market work." Oil for the SPR should be bought when prices are low and sold when high during a crisis. It is the only way that program can work.

It is perhaps easy in a period of falling world oil prices and excess supplies to be complacent about the need to prepare for future emergencies. Shall we be like the proverbial grasshopper, fiddling and dancing our summer days away, ignoring the winter to come? While the rest of the world prepares for another energy crisis, shall we abrogate our responsibility as the world's greatest power to do the same?

The proposed FY83 budget program for emergency preparedness states that it is "The Administration's policy to allow the private sector to anticipate and prepare for disruptions in energy supplies, and to facilitate the operation of market forces as a primary mechanism for dealing with such disruptions."

Let us be frank: This is a policy but it is not a program. And it certainly is not a policy which constructively and intelligently addresses the energy problems which would confront our nation's security in the event of another crisis.

What should that program be?

First, let's lay to rest once and for all the idea of eliminating the Department of Energy, the most logical base for developing a response to threats to national energy security.

Without a doubt in the past DOE has been a department rife with inefficiencies, waste, redundancies, burdensome regulation, and inappropriate programs. In its short history, it has managed to infuriate everyone from consumers to the energy industry. But this is not an argument for abolishing DOE. It is an argument for making it work.

Energy is an issue which cuts across all sectors. It begs for central policy coordination not only in emergency planning but nationally as well. Without it, there will be chaos at both the federal and state levels. Already, for example, states are developing their own oil allocation schemes and the energy severance tax issue if not addressed at the federal level may soon become explosive, tearing the fabric of our form of government.

It is an issue which is of critical concern to our allies in Western Europe and Japan, the developing world, and the Communist bloc. The current fractious and divisive debate with our allies over the Soviet gas pipeline is illustrative of how important it is to have a department coordinating a comprehensive policy toward an issue of international energy security that cuts to the heart of our national defense. How do we convince our allies that the Soviet gas pipeline is of critical importance to the West's energy security when we think so little of energy that we eliminate international energy programs from the budget?

Second, let us continue to progress with filling the Strategic Petroleum Reserve, not only by accelerating the construction of new storage facilities. Let us also place the policy and operations functions of the SPR under an Assistant

Secretary for Emergency Preparedness where they belong. How can we expect our chief energy emergency planner to function without control over the major weapon now available for coping with an oil disruption?

Third, let us create an effective emergency response system. This involves functions at the federal, state, and community levels. As the Department of Transportation has pointed out, the issue in an energy emergency will not be how to save petroleum but how to make the best use of what petroleum is available. Any effort to hand emergency plans down from the top without developing a base of local support will aggravate rather than alleviate the effects of a disruption.

Although state and local energy offices should be the links in contingency planning, they are traditionally underfunded, understaffed, and given very low priority. A network of effective state and local offices for dealing with energy problems is as vital to the nation's security as a new missile system, but these agencies can be brought to an effective level only if they are given considerably greater financial and technical assistance from the federal government. It is ironic that we are expending so much effort and funds to develop a Rapid Deployment Force to protect foreign oil fields but doing little to develop programs at home. Yet, as part of its new budget proposals, the Administration wants to terminate energy preparedness public education outreach functions.

Local communities are even less well-equipped to deal with energy problems than states, but countless activities can be handled best at the local level. Local governments can identify where the elderly and the poor live (two groups that will be seriously affected by energy costs) and decide which areas of the economy need energy most. They can deal with such practical problems as finding people who might lend space heaters to the needy. They can develop temporary mass transit plans -- modifying school hours, for example, so that school buses can be used by the general public as well as school children. They can inform citizens about local emergency efforts and can participate in the national planning process. Citizens should be telling the federal government what they can do to prepare for an energy interruption and what assistance they require to do it. Ironically, Reagan's philosophy of returning power to the states, power that is essential to effective emergency planning, is less likely than ever to be realized because of his austerity program. In this case, the "New Federalism" cannot be realized without federal funding.

Contingency planning must occur at every level of government -- federal, state, and local -- both to promote a wider understanding of what the energy problem really is and to develop the national consensus needed for an effective crisis response. It is time to decentralize decisionmaking, but this cannot be done without federal aid; The federal government should continue to provide financial and technical assistance to state and local governments for energy emergency planning at the same time that it brings order to the national planning effort.

The Secretary's work should be supplemented by a permanent private-sector task force representing segments of the energy industry as well as other major industrial and commercial energy users. This group would work regularly with government policymakers.

The Reagan Administration in its new budget proposals plans to return to the old system of relying on industry for most of its energy statistics. This could be disastrous both politically and practically. In an emergency the public will find the information suspect and will conjure up visions of an oil industry cartel manipulating supplies. Unless an information system can be developed that provides accurate, up-to-the-minute information on petroleum stocks and their location, efforts at contingency planning are doomed. For the good of both the oil industry and the public, this should not be allowed to happen.

We also cannot ignore the international dimension of our energy policy. Foremost is our responsibility both to and with our allies to maintain the economic well being and security of the Western democracies.

Europe and Japan look to the United States to maintain the dynamic leadership needed in a world in which the future is becoming more uncertain. When we seem to pay so little heed to international energy issues, they become fearful, seeking individual solutions rather than alliance ones, and raising doubts concerning U.S. leadership in other areas.

One has only to look at divergencies in policies towards the Middle East, upon whose oil Western Europe and Japan are so much more dependent than we, to realize how far the lack of leadership in one area can affect others.

The Administration's failure to support energy initiatives in the developing world, particularly the World Bank's proposed energy lending affiliate, has raised doubts concerning the Administration's grasp of the critical development problems facing the Third World and their impact on political stability which will provide new opportunities for Soviet encroachment.

Within the Administration, the question is continually being posed: How can the U.S. influence Third World policy? Yet, the answer, which is always so obvious, is not grasped. How long can the obvious be ignored?

It is imperative that the United States develop a cooperative relationship with the developing countries in energy before the era of "resource wars" is really upon us. The Third World is the fastest growing consumer of energy. This trend in energy trade has important political implications for international stability: The industrial and developing world will be competing for the same scarce resource.

The energy realities that must be confronted today are that OPEC will continue to dominate global oil trade throughout the rest of the country, and that the United States will continue to import oil. Even more importantly, our allies will remain even more dependent on imports. The challenge to the United States is to develop a policy that both recognizes these constraints, and works to enhance flexibility for energy use in the market place. Energy resources must be developed and an effective response to any future oil disruption must be prepared.

Mr. **Sharp**. Thank you very much, Mr. Kessler.

Mr. Tauke.

Mr. **Tauke**. Mr. Kessler, I thank you for your testimony. I found myself agreeing with much of what you said.

You indicated earlier you were concerned because there was no drawdown policy articulated for the strategic petroleum reserve and no indication of one being developed in the near future.

Mr. **Kessler**. Not that I know of.

Mr. **Tauke**. If you were formulating such a policy, what kind of guidelines would you use to put a drawdown policy together?

Mr. **Kessler**. I think you have to understand there should not be just one policy, there should be several policies, and this policy should not necessarily be a public policy. It should be one perhaps held confidentially for only the President's top policymakers' review.

The reason for this is that in an emergency when you want to move to do something with the SPR, I think it is obvious that the President will turn to his advisers and ask what policies can we take, what are the alternatives, and if none have been developed, it will take a great deal of time.

This is a sophisticated petroleum system we are talking about, a sophisticated interference with the petroleum system we are talking about. The President will want a wide number of policies to choose from, and these cannot be developed immediately.

Now, as to the parameters for the type of drawdown policy which could be implemented, there have been numerous suggestions in the past in terms of an auction system for petroleum into the oil industry, limiting this to a few companies, not all companies. There are a whole variety of proposals, and I wouldn't like to recommend any one.

I would like to say, however, I think it is important there be a continued investigation of the alternatives for drawing down the SPR so the President himself can have the liberty to choose at the time which policy seems in his view the most appropriate one to take.

Mr. **Tauke**. What happens if we move into an emergency period without any options for drawdown available? Do you have any feeling as to what would happen under those circumstances?

Mr. **Kessler**. I think you would see a confusion of special interests all clamoring that their sector has to be the most protected, that it would be, again, as we saw before in previous disruptions, increasing the damage to the economy rather than lessening the damage to the economy.

Mr. **Tauke**. You discussed briefly your trip to Europe and some of the discussions you had with Europeans about the diminishing concern in the United States over an energy policy. I have had a few conversations with people in Europe myself and have found them to be concerned about the same thing. I cannot suggest by any means that this is universal, but it is a concern I have noted from a few people in Europe.

You suggested one element of that was the lack of support by the United States for the IEA. Perhaps you could elaborate on that just a little bit, giving some indications of where the United States has demonstrated that lack of support.

Mr. **Kessler**. I think there is concern in the immediate term with the provisions for the antitrust legislation, as you are all aware of, whether that will be passed and whether, if it is not passed, the United States will continue to support companies' involvement in the IEA. More specifically, I think the issue which has received the most attention in European eyes in recent times is the issue of a subcrisis trigger mechanism for influencing the market before it reaches 7-percent shortfall.

I think this is what caused a great deal of European concern. They feel the more likely disruptions will occur below this level and that they need some way of influencing the market to maintain lower-market prices.

Another area where I think Europeans are concerned is the Soviet gas pipeline issue, which, as you well know, is so important now in European and U.S. policy. We were opposed to the Soviet gas pipeline. We argued this strenuously with the Europeans, but they came back to us and said that if this was an issue of international energy, why was the United States decreasing its funding for international energy or getting rid of DOE at a time when you perceive this is an energy security issue?

These are some of the problems the Europeans expressed to us.

Mr. **Tauke**. Is there any evidence of the U.S. Government backing away from any of its IEA commitments or failing to engage in the development of new IEA policies?

Mr. **Kessler**. As I am not a member of the Government, I would like not to directly answer that question, but if you could address that to the members of the administration who will be before you tomorrow, I am sure you will get a better answer than I could give you today.

Mr. **Tauke**. I thought I might get a different perspective and perhaps a more objective answer.

Mr. **Kessler**. My perspective is there is a feeling the administration is not strongly supporting the IEA. That is, again, a perception, and I would not like to——

Mr. **Tauke**. That is a perception I share, but I am not certain I can articulate one, two, three points to back it up. I am wondering if you can.

Mr. **Kessler**. As you well know, in politics as well as in international relations, perception is often more important than reality, and I think we are dealing here with a perception that needs to be articulated, a perception that the United States is not supporting the IEA as strongly as it should, and therefore this type of perception needs to be addressed by the administration: if it is supporting the IEA, to come out more strongly in support of it than it has in its previous public statements on the IEA.

Mr. **Tauke**. Thank you, Mr. Chairman.

Mr. **Sharp**. Does the gentlemen from Texas, Mr. Hall, have any questions?

Mr. **Hall**. No, thank you, Mr. Chairman.

Mr. **Sharp**. I wanted to followup on a couple of things, Mr. Kessler. I thought your remarks were very well taken on the need to protect the market and not to view every action of the Government as necessarily interfering in the marketplace, and the important function it plays in our economy.

It strikes me, as I mentioned to the earlier panel, that the administration and others, having witnessed some of the problems and which in some sense were compounded during the oil shortage in 1979 by the extensive triggering of the oil allocation system in this country, that out of a desire to reject those excesses of the past we may be falling into the excess of doing nothing and putting ourselves back in the position of no choices when the chips are down. At that point political leadership has difficulty taking the highest road.

It seems to me the higher road to take now is to expand our options along the lines you were suggesting with the SPR. You may want to have several alternatives available to you, not just one drawdown. It strikes me it is the same with several other options. None of them may be the ideal. We may wish never to have to use them. But if we are scrambling around looking for something to do, I am afraid we up here will respond in a vigorous way to the challenge to do something.

Previous administrations have had great difficulty restraining anyone at that time, but you are not the one that needs convincing on that.

Mr. KESSLER. I agree, we are preaching to the converted today, or the converted are preaching.

Mr. SHARP. That is right.

Let me ask you this: Have you followed at all what is going on in terms of international oil exploration and development in the non-OPEC Third World and our policy toward that? Do you have any judgment on what the World Bank has attempted or proposed to do and whether or not that could be of use?

Mr. KESSLER. Yes; I am familiar with the proposals of the World Bank. As we have said in our study, we support the World Bank energy affiliate, not because we think it is an area where private companies won't necessarily get involved, because they certainly are. I was in Kenya recently and I was told there that in the last 6 months, 21 private oil companies have shown a continued interest in Kenyan development and I think this will continue, but I think it has to be part of a diversified program.

We have to look at Third World exploration as helping our security by diversifying oil supplies worldwide. As we have seen by the recent glut in prices from OPEC, the exploration that has occurred in Mexico and Alaska and other parts of the world that are not OPEC-controlled areas has helped to put us in this situation today, and we need to encourage trends in that direction in whatever manner possible and not limit ourselves to one area.

I am very familiar with Third World policies, Third World legal restrictions on oil explorations. I did my master's thesis on it. I think we have to notice that there has been a change in the perception of the Third World toward the private sector and its involvement. I think we can applaud the change. It is a movement toward embracing more constructively the involvement of the private sector in the Third World.

This has occurred in the oil industry as well as in other parts of the economy. But we must also recognize that many of these countries do not have large fields and these will not be areas in which some of the major oil companies will become involved.

We have discussions with most of the major oil companies. I cannot really think of one with whom we have not discussed this issue as well as others, and they recognize some of these fields are economic. But they have other interests and they must put their priorities where they have them, and it is easier to go with what they are knowledgeable with rather than what they are not knowledgeable with.

Mr. **Sharp**. And do you think the World Bank may help to direct more activity in some of these areas?

Mr. **Kessler**. Yes; I think it has provided a buffer. One of the classic examples is Pakistan. Gulf Oil went into Pakistan, where it would not necessarily have gone, because the World Bank guaranteed their loans for exploration in that area.

Mr. **Sharp**. Thank you very much, Mr. Kessler. We have appreciated your testimony.

Mr. **Kessler**. Thank you very much, Mr. Chairman and committee.

Mr. **Sharp**. We now have a panel, Mr. James Rosapepe, a member of the National Petroleum Council, Committee on Emergency Preparedness, and Mr. Gordon Weil, director, State of Maine Energy Office, representing the National Governors Association.

I believe we had arranged for Mr. Weil to go first since he has a schedule to meet. I hope we have not disrupted that.

## STATEMENTS OF GORDON L. WEIL, DIRECTOR, OFFICE OF ENERGY RESOURCES, STATE OF MAINE; AND JAMES C. ROSAPEPE, PUBLIC MEMBER, COMMITTEE ON EMERGENCY PREPAREDNESS, NATIONAL PETROLEUM COUNCIL

Mr. **Weil**. Thank you very much, Mr. Chairman.

My name is Gordon Weil and I am the director of the Maine Office of Energy Resources, and I appreciate this opportunity to testify before you, both on behalf of the State of Maine and the National Governors Association.

I would like to take this opportunity in particular, since I am here, to thank you, Mr. Chairman, for your leadership in the enactment of the Standby Petroleum Act of 1982, to which the Governors attach a great deal of importance.

While they recognize we should rely on the market as the most effective means of dealing with most energy shortfalls, we are concerned that the market mechanism would not react quickly enough if there was a major dislocation, and the availability of a standby plan would be a reassurance. Therefore, I obviously appreciate what you did and hope now that the President will sign the legislation.

I would also like to thank you and other members of the subcommittee for protecting important State and local laws and regulations from Federal preemption under this act, and the States have had the ability to serve as the first line of defense in many energy supply disruptions.

I think it is important that they be able to operate both voluntary and mandatory measures of a certain level, at least, which is recognized by the bill and what I hope will be the act. State set-aside programs in particular have been shown to have been effective mechanisms for redirecting a small portion of overall supply of petroleum products sold for consumption within a State to those individuals in areas of a State which have been disproportionately impacted by sudden supply disruptions.

We consider this to be of great importance in the States. More and more of them have either recently put them into effect or are considering not putting them into effect but enacting them, including my own State.

The National Governors Association believes it is essential to allow States to retain the ability to respond quickly at the local level to local problems, and while we would have preferred the original language in H.R. 4700, which permitted the Governor to take a decision on his own to implement a limited State set-aside, we feel that the current language in the bill which requires Presidential approval or disapproval is a workable compromise.

In addition, although it was clear from the discussions in both the House and Senate that Federal preemption was not intended to apply to nonemergency petroleum-related statutes, general emergency or disaster relief laws or emergency conservation and the man management measures, I appreciate the Chairman's efforts to make clear both in the report language and during the floor debate last Wednesday that such laws are never preempted under the SPAA.

Before I go on to the budget cuts, I did want to report to you one policy position recently adopted at the winter meeting of the National Governors Association. At that time the Governors reaffirmed their support for reliance on market mechanisms to allocate fuel in all but the most serious shortages but expressed concern that at least in the shortrun, energy prices could precipitously rise beyond the reach of many individuals, particularly those on fixed and low incomes who have difficulty paying their fuel bills under normal circumstances.

The policy position which was proposed to the Governors by Governor Brennan of Maine urged that a mechanism be developed at the Federal level to recycle some portion of the additional Federal tax revenues accruing from an energy shortage and resultant high prices back to those individuals who could not otherwise pay the cost of essential fuel.

I understand the administration, under the direction of Assistant Secretary Vaughn, is to be commended for already having begun to develop several recycling options which could be implemented to mitigate the effects of high prices in a market-managed energy shortage.

As I mentioned earlier, the States strongly support the promulgation of a national standby plan containing price and allocation controls which could be triggered with the consent of the Congress in the event the market fails to adequately cope with the shortages.

As a staff member of the NGA Renewable Resources and Conservation Subcommittee, I have met with key administration officials, and while I am convinced they are actively pursuing a broad range of important emergency management options, I fear their proposal to reduce funding for emergency preparedness in fiscal year 1983 to less than 50 percent of fiscal year 1982 levels may hamper these activities.

I would also note that the administration's fiscal year 1983 budget request does not include funding for activities required or suggested by S. 1503, and I urge the Congress to request DOE to submit an amended budget request as soon as the legislation becomes law. I fear that while the President has proposed to dramatically increase funding for national defense, he may have failed to recognize the threat which continued vulnerability to a severe petroleum supply disruption poses to our national security.

Considering the effects of budget cuts on emergency preparedness, I would also urge this subcommittee to look beyond the budget request for the Office of Emergency Preparedness to the fiscal year 1983 funding levels proposed for State and local programs and the Energy Information Administration.

This Nation's first line of defense in coping with petroleum disruptions, the States, have been dealt a serious blow by the Reagan administration. Despite Congress refusal to zero grant programs which provide core funding for State energy offices in fiscal year 1982, the administration again has proposed to terminate the State energy conservation program, SECP, the Energy Extension Service, EES, schools and hospitals and low-income weatherization in fiscal year 1983.

I think it is important to note that programs like this are the kinds of things that lessen the opportunity for emergencies to arise, help us be prepared in advance to change the nature of our market, to get off of oil, to not be so dependent, to help individuals know how to conserve of their own. In the absence of programs such as this, it only increases the possible impact of an emergency or a crisis when it takes place.

These programs have already sustained significant cuts and they are forcing State energy offices to sharply curtail their activities, including emergency planning, and to let their experienced personnel go. The States are facing budgetary crises as well and it is absolutely impossible for them to make up on a dollar-for-dollar basis the cuts. In fact, in some cases it is impossible for them to make up any of the cuts at all.

Although the Federal Government proposed to provide funding to States who develop State emergency development plans under the Emergency Energy Conservation Act of 1979, only a small amount of money, $29,000 per State, was actually provided. The $10 million appropriated for this purpose in fiscal year 1981 was rescinded last year and no additional funds were provided for fiscal year 1982, and the fiscal year 1983 budget does not request any further funding for States under EECA.

However, $5.7 million of the $7 million originally provided for State gas rationing preimplementation planning in fiscal year 1981 and then returned to DOE has been proposed for rescission. Since these funds would otherwise have been spent by the States for activities under SECP in fiscal year 1981, I would urge that instead of rescinding this very small amount of money, Congress instead provide it to the States for emergency planning.

I would also urge your support for continued Federal funding for these most important State energy conservation grant programs. I would also like to express very serious concern on behalf of all of the States with respect to the proposed cuts in funding for the Energy Information Administration.

As you know, the States have been deeply concerned with the recent attempts by OMB to use the Paperwork Reduction Act to justify elimination of several petroleum data forms currently collected by EIA and utilized by the States. We appreciate your strong support for the Railsback amendment to H.R. 4700 which was proposed in response to State and congressional concerns that crucial Federal data forms could be eliminated by OMB without recourse.

The States rely on this data for both emergency and long-range energy planning. In Maine, for example, we have relied upon energy data collected and published by the EIA in order to manage the oil shortage of 1979, to plan for future supply disruptions, to develop the State of Maine's energy policy and to compile our comprehensive energy resources plan.

Other States have similar needs for accurate and timely energy data. We believe that the EIA should continue to be funded at a level which will continue to insure ongoing data collection and which will allow the EIA to continue to provide the States and others with high quality information. They need energy data for emergency planning.

During a shortage, Governors must have access to accurate information on the supply situation throughout the Nation as well as in their own States. I was in a meeting with representatives of API, and I was asked how do you know when there is an energy crisis, and I said I know there is an energy crisis when I look at the newspaper in the morning and it says there is one and then we start getting a lot of phone calls in the Governor's office asking what he will do about it.

At that point we need information, and information may allow us to prevent panic and not have to take any action, but we have to have the information available to be able to reassure people that we know what is going on. And for that, obviously, some of this information is invaluable, particularly that on the EIA 25 form.

We used this in 1979 in the State of Maine, and by having that information, we were able to avoid taking other actions of a demand restraint nature because we were able to reassure people. The data also enabled States to develop effective emergency energy plans. Without a basic understanding of the State's energy mix and the amounts and kinds of fuels consumed by various end use sectors, States will be unable to provide strategies for reducing consumption and protecting essential services during a shortage.

In Maine we are required by law to submit a comprehensive energy resources plan to the legislature each January. This plan analyzes the amount and kinds of energy consumed by end users in the State and includes projections of future prices and demand. This is heavily reliant on EIA data and it allows legislators, the Governor and the industry to have a common data base on which to proceed in formulating State policy.

In addition, energy data is needed for nonemergency situations to formulate energy policy. The instability of crude oil supplies and the tremendous increase in oil prices since 1979 have led States to consider policies discouraging reliance on petroleum projects. In

June 1981 we developed the State of Maine energy policy. Because Maine is dependent upon oil for nearly 70 percent of its total energy use, we determined that the long-term policy of the State of Maine shall be to encourage energy conservation and diversification and the use of indigenous and renewable resources so that the State can be more nearly self-sufficient.

The State of Maine will continue to rely upon data collected and published by the EIA, and we are concerned that the proposed 1983 budget for data collection will not enable the EIA to maintain the quality and timeliness of current reports.

During the past year, EIA has made considerable progress in consolidating a number of forms and reports improving timeliness and reducing the reporting burden. We support those moves to avoid duplication in data and to cut costs. However, the funding request for fiscal year 1983 represents a 30-percent decrease from fiscal year 1982 and a 29-percent reduction in staff.

I question whether the EIA can continue to meet its legislative mandates and publish the kind of data required by States and other data users on such a reduced budget. I will not go into detail. In my testimony there is a list of the kinds of data that the States find useful and why, and I think it is important to point out that the NGA has formed a task force which is an outgrowth of the subcommittee of which I am the chairman, which includes representatives from a number of producing and consuming States, to identify State energy data needs.

This task force has met with representatives of producers from the American Petroleum Institute to discuss State needs. Although NGA and API have not yet come to an agreement as to whether certain data should be collected on a State or PADD basis and who should collect price data, there are wide areas of agreement on the kind of data EIA should continue to collect.

Since discussions to resolve differences are ongoing at the present time, we have agreed that as far as we are concerned, none of EIA's forms or publications should be changed pending an agreement. Both NGA and API have tentatively agreed that EIA should continue to collect the vast majority of data currently gathered.

I think it is significant that there has been that wide an area of agreement between the States, who are the users of the data, and the industry, which is the provider of the data. As I have indicated, States rely on State-specific data collected and published by the EIA. We are concerned because the Reagan administration has not shown support for State level energy data, and we fear this type of data will be the first to be eliminated under a reduced budget.

The administration is sending the State mixed signals. On one hand, the EIA has developed a State program plan and is holding workshops throughout the country, including one in Washington yesterday and today, soliciting State comments on the proposed new form to replace the 25. On the other hand, the administration has introduced a bill, S. 1281, which would repeal existing requirements to collect State level data in both the EECA and the Energy Supply and Environmental Coordination Act.

Although the administration has proposed a replacement to the EIA-25, which is only authorized to the end of this year, it is unclear whether DOE will exercise the authority to require prime suppliers to submit the report directly to State energy offices. Since the EIA-25 reports expected delivery for the upcoming months, States must have access to it in a timely manner.

Congress has shown strong support for the collection of State-specific data collected by EIA, and we think that this should continue in the SPAA, which authorizes the President to collect information on the pricing, supply, and distribution of petroleum products.

Congress has again made its intent clear. The question is whether the Energy Information Administration's budget and the administration's policy will allow the continued implementation of the legislative mandates. If the States lose access to EIA-25 data and other data and if the EIA reduces or eliminates the publication of State-specific data, States will be forced to pass their own energy reporting requirements and develop their own data collection forms.

Many States already have the authority to collect energy data. In Maine we have two reporting laws. One authorizes us to collect inventory data at major storage facilities in the State twice a month, and the other authorizes us to collect actual and expected petroleum product deliveries to the State in the event DOE eliminates the EIA-25 form or we no longer have access to it.

The development of a variety of State data collection forms will greatly increase the reporting burden on respondents and will prevent effective comparisons between States and among States since methodologies and definitions will not be uniform.

States need State-specific energy data for emergency planning and for the development of energy policy. Congress has indicated its support for that. EIA has developed a State program plan and is working with State energy offices to identify and meet State data needs. However, the continuation of State-specific data collection is threatened by the administration's policy, which has severely reduced the EIA's budget and which has advocated the repeal of certain legislative mandates.

If there is no action by the EIA, the States will act, and that could leave this country and the States unprepared in the case of a crisis, real or imaginary. It would seem unwise and unnecessary to take action abandoning data collection.

Thank you.

[Testimony resumes on p. 87.]

[The prepared statement of Mr. Weil follows:]

Testimony of Gordon L. Weil
Director, Maine Office of Energy Resources

on behalf of

The National Governors' Association

Mr. Chairman, Members of the Committee, my name is Gordon L. Weil and I am Director of the Maine Office of Energy Resources. I appreciate this opportunity to testify before you this morning on behalf of the State of Maine and the National Governors' Association.

I would like to take this opportunity to commend you, Mr. Chairman, for your leadership in enacting the Standby Petroleum Allocation Act of 1982. The Governors, like most members of the Congress, believe that reliance on the market is the most effective means of dealing with small and moderate energy shortfalls. We fear, however, that the market mechanism would not react quickly enough in the short run to avert the tremendous social and economic dislocations which would be certain to result in the event of a sudden and severe energy supply disruption, and have strongly supported federal legislation to require the promulgation of a federal standby plan. The Governors believe that the availability of a standby plan, which could be expeditiously implemented in the event of a large scale energy emergency, is crucial to our national security. On behalf of the National Governors' Association, I strongly urge the President to sign this important legislation, S. 1503, which was overwhelmingly approved by both Houses of Congress last week.

I would like, in particular, to thank you, Mr. Chairman, as well as the other members of this Subcommittee, for protecting important state and local laws and regulations from federal preemption under this Act. The states historically have been this nation's first line of defense in responding to past energy supply disruptions, and I firmly believe that the early implementation of voluntary and mandatory measures by state and local governments was largely responsible for minimizing many of the social and economic disruptions associated with previous shortages.

State set-aside programs, in particular, have been shown to be effective mechanisms for redirecting a small portion of the overall supply of petroleum products sold for consumption within a state to those individuals and areas of the state which may have been disproportionately impacted by a sudden supply disruption.

Although the set-aside program expired with the EPAA, the effectiveness of state set-asides is evidenced by the ever-increasing number of states, including Maine, Iowa, New York, and others, which have recently implemented or are considering enactment of state set-aside legislation. The National Governors' Association believes that it is essential to allow states to retain the ability to respond quickly at the local level. We would have preferred the original language contained in H.R. 4700, which permitted a Governor to make the decision to implement a limited state set-aside program. However, we feel that the language contained in the Conference Report, which directs the Governor to notify the President of his intent to trigger a state set-aside program, and requires the President to approve or disapprove its implementation within 10 days provides a workable compromise.

In addition, although it was clear from discussions in both the House and Senate that federal preemption was not intended to apply to non-emergency petroleum-related statutes; general emergency or disaster-relief laws; or emergency conservation and demand management measures, I appreciate your efforts to make clear both in the report language and during floor debate last Wednesday, that such laws are never preempted under the Strategic Petroleum Allocation Act.

New NGA Policy

Before I address the budget cuts, I would like to bring to your attention a policy position relating to emergency preparedness recently adopted by the National Governors' Association.

At their recent meeting here in Washington, the Governors reaffirmed their support for reliance on market mechanisms to allocate fuel in all but the most serious shortages, but expressed concern that, at least in the short run, energy prices could precipitously rise beyond the reach of many individuals -- particularly those on fixed and low incomes who have difficulty paying their fuel bills under normal circumstances. The policy position, which was offered by Governor Brennan, urged that a mechanism be developed at the federal level to recycle some portion of the additional federal tax revenues, accruing from an energy shortage and resultant high prices, back to individuals on low and fixed income.

I understand that the Administration, under the direction of Assistant Secretary Vaughan, is to be commended for already having begun to develop several recycling options which could be implemented to mitigate the effects of high prices in a market-managed energy shortage.

Budget Cuts

As I mentioned earlier, the states strongly support the promulgation of a national standby plan containing price and allocation controls, which could be triggered with the consent of the Congress in the event that the market fails to adequately cope with a shortage. As staff chairman of the NGA Renewable Resources and Conservation Subcommittee, I have met periodically with key Administration officials; and while I am convinced that they are actively pursuing a broad range of important emergency management options, I fear that the Administration's proposal to reduce funding for emergency preparedness in FY 1983 to less than 50% of FY 1982 levels may hamper these activities. I would note also that the Administration's FY 83 budget request does not include funding for activities required or suggested by S. 1503, and urge the Congress to request DOE to submit an amended budget request as soon as the legislation becomes law. I fear that while the President has proposed to dramatically increase funding for national defense, he has failed to recognize the threat which continued vulnerability to a severe petroleum supply disruption poses to our national security.

In considering the effects of budget cuts on emergency preparedness, I would also urge this Subcommittee to look beyond the budget for the DOE Office of Emergency Preparedness to the FY 83 funding levels proposed for state and local programs and the Energy Information Administration.

## State and Local Programs

This nation's first line of defense in coping with petroleum supply disruption, the states, have been dealt a serious blow by the Reagan Administration. Despite Congress's refusal to zero grant programs which provide core funding for State Energy Offices in FY 1982, the Administration again proposed to terminate the State Energy Conservation programs (SECP), the Energy Extension Service (EES), Schools and Hospitals, and Low Income Weatherization in FY 1983. These programs, which maintain essential energy conservation and emergency preparedness activities in many states, have already sustained significant cuts. The budget cuts are forcing many State Energy Offices to sharply curtail their activities, including emergency planning, and to let their experienced personnel go. Inasmuch as many of these states would like to supplement the loss of federal funds with state monies, most are facing severe budget constraints and are unable to do so.

Although the federal government proposed to provide funding to states to develop state energy emergency plans under the Emergency Energy Conservation Act of 1979 (EECA), only a small amount of money, $29,000 per state, was actually provided. The $10 million appropriated for this purpose in FY 1981 was rescinded last year. No additional funds were provided for FY 1982, and the FY 1983 budget does not request any funding for the states under EECA. However, $5.7 million of the $7.0 million originally provided for state gas rationing pre-implementation planning in FY 81 and then returned to DOE has been proposed for rescission. Since these funds would otherwise have been spent by the states for activities under SECP in FY 81, I would urge that instead of rescinding the money, Congress instead provide it to the states for emergency planning. I would also urge your support for continued federal funding for these most important State Energy Conservation grant programs.

EIA

I would also like to express very serious concern, on behalf of all of the states, with respect to proposed cuts in funding for the Energy Information Administration. As you know, the states have been deeply concerned with the recent attempts by OMB to use the Paperwork Reduction Act to justify elimination of several petroleum data forms currently collected by EIA and utilized by the states; and we appreciate your strong support for the Railsback Amendment to H.R. 4700 which was proposed in response to state and Congressional concerns that crucial federal data forms could be eliminated by OMB without recourse.

The states rely on this data for both emergency and long-range energy planning. In Maine, for example, we have relied upon energy data collected and published by the EIA in order to manage the oil shortage of 1979, to plan for future supply disruptions, to develop the State of Maine's Energy Policy, and to compile our comprehensive energy resources plan. Other states have similar needs for accurate and timely energy data. We believe that the EIA should continue to be funded at a level which will ensure ongoing data collection and which will allow the EIA to continue to provide the states and others with high quality information.

States need energy data for emergency planning. During a shortage, Governors must have access to accurate information on the supply situation throughout the nation as well as within their own states. Without reliable information on the amount of petroleum products available, Governors will not be able to make good decisions on the kinds of actions needed to manage the shortage. For example, during the 1979 shortage in Maine, we carefully analyzed the amount of gasoline which prime suppliers expected to deliver during the summer months of 1979, as reported on the EIA-25 form. We also monitored national supplies. We concluded that the level of shortfall was not severe enough to warrant the implementation of mandatory demand restraint measures. Our analysis proved correct. Long gasoline lines never developed in Maine. In 1979, access to accurate information enabled us to avoid regulatory action.

The states need energy data in order to develop effective emergency energy plans. Without a basic understanding of a state's energy mix and the amounts and kinds of fuels consumed by various end use sectors, the states will not be able to devise strategies for reducing consumption and protecting essential services during a shortage. Many state emergency plans include measures directed at specific sectors. In order to implement the most effective measures, states must know which sectors are major users of specific fuels. For example, if the principal consumers of distillate fuel in a given state are the agricultural and transportation sectors, an intensive information program urging residential users to conserve heating oil will not result in a significant savings of fuel.

In Maine, we are required by law to submit a comprehensive energy resources plan to the legislature each January. This plan analyzes the amount and kinds of energy consumed by end users in the state and includes projections of future prices and demand. The plan we published in January 1982 includes a twenty-year data base which we developed using EIA reports and the EIA-25 forms. The statistics in the Comprehensive Energy Resource Plan will assist us in estimating the fuel savings of specific measures in our emergency energy plan so that we can avoid using measures which are burdensome, but which do not result in a significant reduction in demand.

States also need energy data to formulate energy policy. The instability of crude oil supplies and the tremendous increase in oil prices since 1979 have led states to consider policies discouraging reliance on petroleum products. In June 1981 we developed the State of Maine Energy Policy. Because Maine is dependent upon oil for nearly 70% of its total energy use, we determined that: "The long term policy of the state of Maine shall be to encourage energy conservation and diversification and the use of indigenous and renewable resources so that the state can be more nearly self-sufficient." The energy policy contains specific recommendations, many of which have been implemented.

The State of Maine will continue to rely upon data collected and published by the EIA. We are concerned that the proposed 1983 budget for data collection will not enable the EIA to maintain the quality and timeliness of current reports. During the past year, the EIA has made considerable progress in consolidating a number of forms and reports, improving the timeliness of its publications, and reducing the reporting burden on respondents. We support these moves to avoid duplication in data collection and to cut costs incurred by both the EIA and respondents. However, the funding request for FY 83 represents a 30% decrease from FY 82, and a 29% reduction in staff. I question whether the EIA can continue to meet its legislative mandates and publish the kind of data required by states and other data users on such a reduced budget.

Let me outline the kinds of forms and publications we want to see continue. From the states' perspective, the most important form is the EIA-25, or Prime Supplier's Monthly Report. This form, which is sent directly to state energy offices by the Prime Supplier, indicates the amount of petroleum products delivered to each state during the preceding month and the projected supply for the following month. As I explained earlier, we have used this data to deal with past shortages, to manage the state set-aside program, and to develop our comprehensive energy resources plan. The kind of data listed on the EIA-25 is absolutely essential for emergency planning.

States also rely on EIA reports which list state energy consumption by end-use sector. These include: the state energy data report, which lists total consumption for each state; Deliveries of Fuel Oil and Kerosene; Sale of Liquified Petroleum Gases; Coal Distribution; and the Electric Power Monthly.

States also monitor the national supply situation through publications such as the Weekly Petroleum Status Report, the Monthly Energy Review, the Monthly Petroleum Statement, the Monthly Petroleum Product Price Report, Weekly Coal Production, and the Short Term Energy Outlook. The national energy distribution system does not follow state boundaries, and states need to follow national trends in order to assess their impact on state supplies.

The National Governors' Association has formed a Task Force which includes representatives from a number of producing and consuming states to identify state energy data needs. This Task Force has met with representatives of producers, from the American Petroleum Institute to discuss state needs. Although NGA and API have not yet come to an agreement as to whether certain data should be collected on a state or PADD basis and as to who should collect price data, there are wide areas of agreement on the kind of data EIA should continue to collect. Since discussions to resolve differences are ongoing at the present time, we have agreed that none of EIA's forms or publications should be changed pending an agreement. Both NGA and API have tentatively agreed that EIA should continue to collect the vast majority of data currently gathered.

As I have indicated, states rely on state-specific data which is collected and published by the EIA. We are concerned because the Reagan Administration has not shown support for state-level energy data and we fear that this type of data will be the first to be eliminated under a reduced budget.

The Administration is sending states mixed signals. On the one hand, the EIA has developed a state program plan and is to hold workshops around the country, including one here in Washington yesterday and today, soliciting state comments on a proposed new form which would replace the EIA-25. On the other hand, the Administration has introduced a bill, S. 1281, which would repeal existing requirements to collect state-level data in both the Emergency Energy Conservation Act and the Energy Supply and Environmental Coordination Act. Although the Administration has proposed a replacement to the EIA-25 (the 25 is authorized only through the end of 1982), it is unclear whether the DOE will exercise the authority to require prime suppliers to submit the report directly to state energy offices. Since the EIA-25 reports expected deliveries for the upcoming month, states must have access to it in a timely manner. The only way states can be assured of obtaining the data when they need it is to receive the EIA-25 directly from the respondents.

Congress has shown strong support for the collection of state-specific data and for state access to data collected by the EIA. Section 20 of the FEA Act of 1974 requires the agency to provide a central clearinghouse for states seeking energy information. The Emergency Energy Conservation Act of 1979 requires the DOE to monitor middle distillate supplies within each state. Section 11 of the Energy Supply and Environmental Coordination Act of 1974 requires reports of inventories and expected supplies on a state-by-state basis. Finally, Congress has recently passed the Standby Petroleum Allocation Act which authorizes the President to collect information on the pricing, supply,and distribution of petroleum products at the state level. Congressional intent is clear; the question is whether the Energy Information Administration's budget and the Administration's policy will allow the continued implementation of legislative mandates.

If the states lose access to EIA-25 data, and if the EIA reduces or eliminates the publication of state-specific data, states will be forced to pass their own energy reporting requirements and develop their own data collection forms. Many states already have the authority to collect energy data. In Maine we have two reporting laws. One authorizes us to collect inventory data at major storage facilities in the state twice a month, and the other authorizes us to collect actual and expected petroleum product deliveries to the state in the event that the DOE eliminates the EIA-25 form or we no longer have access to it. The development of a variety of state data collection forms will greatly increase the reporting burden on respondents and will prevent effective comparisons between states since methodologies and definitions will not be uniform.

States need state-specific energy data for emergency planning and for the development of energy policy. Congress has indicated their interest in state level energy data. The EIA developed a state program plan and is working with state energy offices to identify and meet state data needs. However, the continuation of state-specific data collection is threatened by the Administration's policy which has severely reduced the EIA's budget and which had advocated the repeal of certain legislative mandates to gather state level data. Unless the EIA can continue to meet state data needs, states will institute their own patchwork of data collection. That could leave this country and the states unprepared in case of a crisis, real or imaginary. It would seem unwise and unnecessary to take action abandoning data collection.

Thank you.

Mr. SHARP. Thank you.

If you begin to run up against a time problem, please signal me.

Mr. Rosapepe, I would be happy to hear from you.

## STATEMENT OF JAMES C. ROSAPEPE

Mr. ROSAPEPE. Thank you, Mr. Chairman.

If my statement could be put into the record, I will just touch a couple of highlights.

Mr. SHARP. Both statements in full will be made a part of the record.

Mr. ROSAPEPE. Thank you very much.

Let me make a couple of points. The administration seems to be basing part of its rationale for budget cuts in this area on the assumption that its ballyhooed free market strategy for emergency management is almost self-executing. That is nonsense.

In reality, the free market approach foreswears certain kinds of Government intervention—price controls, allocation and rationing. If the Government is really ready to stay out, why are we spending billions of dollars to fill the Government-owned and controlled SPR? The truth is the big four of energy emergency preparedness—demand management, fuel substitution, emergency production, and inventory management, including the SPR—all are market oriented and require significant Government roles.

The tools included in the emergency preparedness, energy information, international affairs area of the DOE budget are critical to making any of those tools useful. Let me speak to one specifically.

There is a tendency by some policy analysts to ignore the importance of communication with the public about the facts surrounding an emergency and recommended responses. Many frankly see public education as merely PR. This approach, reflected in the administration's proposal to zero out DOE's small public outreach efforts in this area, is a mistake.

In my judgment, the biggest errors in 1979 were not in the technical details of the allocation program. The major problem was that without a coherent approach to public communication, Government spokesmen created panic that turned increased imports into shortages at the pump.

I would like to quote briefly from the National Petroleum Council Report that spoke specifically to this issue:

> The importance of the government's role in providing effective communication to the public during an emergency should not be underestimated. The flexible approach recommended in this study for dealing with supply disruptions relies heavily on market mechanisms and voluntary responses.
>
> In order for this approach to be effective, public confidence and cooperation are crucial. The early stage of an actual or threatened crisis when the situation and outlook may be least clear is a particularly important period when actions which could exacerbate the problem, such as panic buying by consumers and unwarranted restraint by suppliers in drawing down inventory, should be avoided.
>
> Energy suppliers and consumers should be provided with timely information so their actions can be based on the best available assessment of the situation.

That is the National Petroleum Council, an industry-dominated group.

In the area of energy information, it seems to me that, while you can talk about specific forms and you can talk about reporting burdens, and the comments Mr. Weil made are, I think, very much on target in terms of the specific usefulness to the States of particular reports, in my judgment the big picture is somewhat different. That is simply that the Government is underinformed in this area, not overinformed.

Yes; there may be areas where we can reduce duplication, but if you take specifically the 1979 shortage, it should have taught us all that increases in secondary and consumer oil storage—utility or gas tanks—can be as important as primary storage at oil refineries. Yet the Government still has not developed a system to regularly measure the size and behavior of these important aspects of the system.

We still have no way of knowing to what extent a reduction in primary storage reflects increased use or merely a shift to other storage. Confusion on this point was, I think, an important part of the creation of panic during 1979.

Finally in the international area, America is hostage to many more countries than those few whose exports are reduced during a cutoff. The oil trade operates in a world market in which the behavior of other consuming nations can affect us as much as the actions of other producing countries.

If, for example, we draw down our SPR but Western European countries do not reduce their stocks, we can end up helping them at considerable cost to American taxpayers. There is good reason to believe that, in 1979 again, aggressive moves into the spot market by independent Japanese refiners played a big role in driving up prices.

The need is clear for a well-staffed, well-focused office of the Government to help guide our relationships with other countries. Not simply to deal with IEA, although that is important, but also trying to make sure that our planning process is integrated with what other countries are doing. Given what the administration is proposing, zeroing out the entire international relations efforts in DOE or its successor, it is hard to see where that critical task will be handled.

Thank you, Mr. Chairman.

Mr. SHARP. Thank you.

[The prepared statement of Mr. Rosapepe follows:]

## Statement of James C. Rosapepe

Public Member, Committee on Emergency Preparedness (1980-81)
National Petroleum Council

Mr. Chairman and Members of the Subcommittee:

I am James C. Rosapepe, a partner in the public policy consulting firm of Rosapepe, Powers and Associates. Our clients include both public and private sector organizations, but my testimony today is based primarily on my service in 1980 and 1981 as a public member of the National Petroleum Council's (NPC) Committee on Emergency Preparedness.

My concern today is with the Administration's proposed cuts in the FY 1983 budget for important efforts related to preparing for a future energy emergency. In some ways these proposed cuts, totaling about $35 million in reductions for Emergency Preparedness, Energy Information, and International Affairs, are surprising.

Obviously the sums are miniscule in the context of the Department of Energy (DOE) budget, let alone the projected FY1983 deficit. More importantly, by raising contingency planning to the subcabinet level and pushing hard to fill the Strategic Petroleum Reserve (SPR), this Administration seemed to be showing more understanding of the vital government role in preparing for an energy emergency.

But now DOE comes to Congress urging:

- a 47% reduction in the Emergency Preparedness budget;
- a 30% cut in funding for the Energy Information Administration;

- o "zeroing out" the entire energy International Affairs effort.

I see at least five reasons why reducing our already meager investment in preparing for the next energy crisis is ill-advised.

1. The need for effective government preparation for an emergency is as great now as ever.

It is fashionable this month to speculate about how far world oil prices will drop. Will OPEC collapse? Are synfuels dead?

These are interesting and even important questions. But, the fact we are asking them does not suggest that the danger of an import cutoff or other emergency in this decade has receded. Quite the reverse. That public dialogue can switch so quickly from obsession with shortages to obsession with gluts suggests that the world oil picture is primarily unpredictable -- even in the relatively short term.

You may recall the oil glut of 1975-1978!

My point is simply that, whatever reasonable arguments there are for cutting these budgets, they have nothing to do with the current state of the world oil market.

## 2. A market-oriented contingency plan demands a high level of government information, planning, and international coordination.

The Administration seems to be basing part of its rationale for these budget cuts on the assumption that its ballyhooed "free market" strategy for emergency management is almost self-executing.

Nonsense.

In reality, the "free market" approach merely foreswears *certain kinds* of government intervention -- primarily price controls, allocation, and rationing. If the government is really going to stay out, why are we spending *billions* of dollars to fill the government-owned and government-controlled SPR?

The truth is that the Big Four of energy emergency preparedness -- demand management, fuel substitution, emergency production, and inventory management (including the SPR) -- are all market-oriented *and* require a significant government role.

For example, if the United States faced the cutoff of Saudi Arabian oil later this year, DOE and the White House would need:

- extensive, reliable *information* about energy supply and demand;

- a full array of well thought out *plans* for quickly increasing supply and depressing demand;

- a knowledgeable energy staff focused on the *international* aspects of the crisis.

The government would need these tools *especially* if the President did not want to use the authority Congress wants to give him under the Standby Petroleum Allocation Act of 1982.

### 3. *Public education before, and during, a crisis is critical.*

There is a tendency by some policy analysts to ignore the importance of communication with the public about the *facts* surrounding an emergency and the *recommended responses*. Some see public education efforts as merely "P.R."

This approach, reflected in the Administration's proposal to "zero out" DOE's small (3 staff year) public outreach efforts, is a mistake. I believe that the biggest government errors in managing the 1979 crisis were *not* in the technical details of the allocation program. The major problem was that, without a coherent approach to public communication, government spokesmen *created panic* that turned *increased* imports into *shortages* at the pump.

The NPC report summed up well the case for a serious government public education effort:

> "The importance of the government's role in providing effective communications to the public during an emergency should not be underestimated. The flexible approach recommended in this study for dealing with supply disruptions relies heavily on market mechanisms and voluntary responses. In

> order for this approach to be effective, public confidence and cooperation are crucial. The early stage of an actual or threatened crisis when the situation and outlook may be least clear is a particularly important period when actions which could exacerbate the problem, such as panic buying by consumers and unwarranted restraint by supplers in drawing down inventories, should be avoided. Energy suppliers and consumers should be provided with timely information so that their actions can be based on the best available assessment of the situation."*

4. Right now the government has too little information, not too much.

The Administration's proposed cut in the Energy Information Administration budget implies that DOE is over-informed about the behavior of the energy market. That is not true.

While no doubt some data currently collected may not be needed, much needed information is not now collected and analyzed.

For example, the 1979 shortage should have taught us all that increases in secondary and consumer oil storage (at utility plants and in gas tanks) can be as important as primary storage (at oil refineries). Yet the government still has not developed a system to regularly measure the size and behavior of these important aspects of the system. We still have no way of knowing to what extent a reduction in primary storage reflects increased use or merely a shift to other storage. Confusion on this point helped create panic during the 1979 crisis.

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* Emergency Preparedness for Interruption of Petroleum Imports in the United States, National Petroleum Council, Washington, D.C., April, 1981, p. 246

5. The international response to an emergency largely determines the effectiveness of U.S. efforts.

During an oil import cutoff, America is hostage to many more countries than the few whose exports are reduced. The oil trade operates in a world market in which the behavior of other *consuming* nations can affect us as much as do the actions of other *producing* countries.

If, for example, we drawdown our SPR but Western European countries do not reduce their stocks, we can end up helping them at considerable cost to American taxpayers.

And, there is good reason to believe that, in 1979, agressive moves into the spot market by independent Japanese refiners played a big role in driving up prices.

The need is clear for a well-staffed, well-focused office in the government that can help guide our relationships with other countries before and during an emergency. With DOE's plan to eliminate the Office of International Affairs, it's difficult to see who will perform this critical task.

Mr. Chairman, that concludes my statement. I would be happy to answer the subcommittee's questions.

Mr. Sharp. Mr. Hall, have you any questions?

Mr. Hall. Of Mr. Weil. I understand he has a time problem.

Mr. Weil. It is not that pressing.

Mr. Hall. I would like for you to expand upon the recycling options that you have pointed out you have already begun. The basic problem is the exodus of your professionals leaves you a short-term loss, but the people who are leaving are more likely to get jobs and find placements elsewhere. Once the emergency the administration has pointed out has passed, you cannot rehire these people.

Is that true?

Mr. Weil. Yes; that is precisely what is happening. I am not worried about them in the social welfare sense that they will be unemployed, but that in fact the States will lose people who have lived through some of these experiences in the past and have learned from them and probably wouldn't do some of the same things another time. And we have to go back to square one if another shortage arises and we lose some of the people because we don't have the funding.

Mr. Hall. In your State you are required to submit a comprehensive energy resources plan to the legislature each January, and I presume by that that you all meet annually.

Mr. Weil. That is correct.

Mr. Hall. Do you know what the facts are regarding other States with this requirement?

Mr. Weil. Yes. It is done in a variety of different ways and it is called by a lot of different names, but in a great many States, State energy offices or the executive branch is required to provide information to the legislature.

It remains from an earlier period when people needed to have some data on which to make some policy decisions and legislatures really wanted to know whether the Governors were doing the right thing. They could obviously stop an action being taken. And you need to have a data base. You need to know what is happening in your State before you can decide whether a given event is serious, minor, controllable or what.

Mr. Hall. In Maine you are only authorized to collect inventory data and you are only authorized to collect the actual and expected petroleum product deliveries in the State. What is your basic source, though, of the report you make to your legislature, and how do you get it? How do you forcefully get it?

Mr. Weil. We get a lot of the data with regard to oil from Federal forms, from EIA data that comes to us. That data that you allude to there is really of more use in the event some kind of crisis arose. It would be a way of telling us there was a short-term crisis. The data we use for our annual data base for our annual plan is very heavily reliant upon what we get from the EIA. Also private sources.

I would also say the oil companies are generally cooperative on a great number of things, but where it is coming through EIA and it has been collected on a uniform basis, it is more useful and I think they prefer, from what I have seen, for us to get some of that data that way, through EIA.

Now, obviously we have information in there which has nothing to do with oil and we collect it in other ways. We are a big wood burning State, for example, and we must collect that data on our own.

Mr. HALL. What other organizations do you in the National Governors Association cooperate with that would give you some feedback statewide, like the National Association of County Officials, for example? Do you attend their conferences and work with their leadership and glean their outlooks?

Mr. WEIL. Yes. We work with the organization of State legislatures, the county organization, organizations of cities and the Governors Association. All are always in regular contact and generally adopt a cooperative approach. As it happens, the responsibilities in managing energy crises are generally State rather than local, but to some extent there are local responsibilities.

Mr. HALL. But you get resolution input from them, do you not?

Mr. WEIL. Oh, yes. We work closely not only with the organizations but with our own counties and local governments.

Mr. HALL. Mr. Weil, from your appearances before those organizations and your connection and representation on the National Governors Association, does your presentation here fairly parrot the thinking of the organization? I know it does yours or you wouldn't be here, but of the other State organizations?

Mr. WEIL. I wouldn't want to presume to go on the record speaking on behalf of the other organizations, but it would be fair to say, I think, that my understanding is the position of the Governors on energy legislation of this type is very much in line with the attitudes of the other organizations of local government.

Mr. HALL. You obviously differ with the administration's approach.

Mr. WEIL. Yes, we do.

Mr. HALL. How much in dollars and sense do you differ?

Mr. WEIL. I cannot give you a number, but it is really a very small number. In fact, we are talking, for example, in the energy conservation programs, we are talking about something under $35 million for SECP and E. & S., which are the two programs run by the State energy offices, which now the administration in fiscal year 1983 proposes to zero out. That level of $34 million, $35 million is already an enormous reduction.

There have been significant cutbacks. States have moved in to the extent they can. That very small amount of money, the disappearance of that $34 million would have catastrophic, I think, effects in terms of the ability of the States to do what they need to do, not to deal with an energy crisis but in a way to prevent an energy crisis, to help their people be prepared in advance to take action on their own.

We have no problem with the market. What we find is people come to us and say I know I must do something because prices are going up, but I don't quite know what I should do or how I should react, and I need some impartial force not trying to sell me something to advise me on what I ought to do.

The State plays that role. It is interesting. You have weatherization programs which are very good, very solid programs. They actually help move people off of oil. These conservation programs are sort of what I would call middle class programs, if I could. They are people not looking for a handout from government, who are looking for good advice from a neutral source.

The reaction we have gotten to these conservation programs is: At last, something for us, the Government is doing something for us. And you are talking about $34 million a year for those programs. It will hardly have an impact one way or the other. I think those are extremely important, and we do things in those programs that cannot be done elsewhere. If we don't do them, they are not done.

Mr. **Hall**. The President gets polls on it and we get testimony, but States have to referee these disruptions, is that right?

Mr. **Weil**. The first analysis is they won't call the White House, they will call us, and sometimes they ought to. Sometimes the problem is basically a local disruption. We had a major problem in Maine which was probably due to some bad planning by somebody, I don't care if it is company management that screws up, and we end up not having heating oil in the winter.

The person without heating oil does not care if it is because of Saudi Arabia, Iran or because someone made a dumb decision in Boston. All he knows is he doesn't have the heating oil, and he expects us to help him out.

Mr. **Hall**. I thank both of you for your testimony.

Mr. **Sharp**. Mr. Rosapepe, I wanted to go back to your testimony with regard to data collection. If I understood you correctly, you really believe we should not make these budget cuts but should go forward with basic data collection.

Mr. **Rosapepe**. Absolutely, absolutely.

Mr. **Sharp**. And obviously, as you have mentioned, the National Petroleum Council is by and large an industry representative, and I take it they did not see that the burden was so onerous or outlandish that we should not carry forward with what obviously is a burden and a problem to companies in some degree.

Can you speak to that?

Mr. **Rosapepe**. I am not here to speak for the National Petroleum Council. I am one of the 10 percent nonindustry representatives, so I don't speak for the majority in every case, but I can give you an impression of what I heard during this whole process.

I frankly think there is a split in the bureaucracies, in the companies, as there is in any bureaucracy between those who fill out the forms who come in and complain and nitpick, frankly, about the forms, and the folks who actually have to manage supply. That is who you are dealing with in the National Petroleum Council study. You are dealing with the supply folks, who want more information rather than less. They want more information about where oil is going in terms of their own company and other operations because it makes their jobs easier.

Let me put it in broader context because it relates to information and it relates to emergency preparedness and the point Mr. Weil made about laying people off at the State level. The biggest complaint I heard over a 9-month period working with the operating folks in the companies who worked on the NPC study was not with the details of the allocation program, not with the theory of Government intervention, not with those sorts of things; it was with the inexperience of the Government officials who dealt with the crisis, particularly in 1973 and 1974.

Repeatedly, the folks in the companies who dealt with it in a hands-on manner said "Bless DOE's soul." By 1979, whatever other problems there were, you at least had people who understood something about how the oil market worked. That was really their biggest concern, and that is why the NPC report says, not as strongly, frankly, as I would like, but it clearly says you need an ongoing Government capability, and part of that is information, part of that is staff, and part of that is authority so that you are not reinventing the wheel in a 30-day period.

I think that is the judgment of people in the industry who deal with this every day, and I agree with that. That has been the primary problem in the past. All of these budget cuts in the international area, the emergency preparedness area and the information area are designed to do that. So we reinvent the wheel again at the Federal and State level when the new crisis comes up.

Mr. Sharp. When the NPC first came out with their study, I expected to see it blasted by the political left in this country as having been the proposal of the industry and therefore looked upon with the kind of suspicion that has tended to flow in American politics when proposals have come from industry, but in reality people all across the spectrum are saying why aren't we doing the things the NPC called for, and I have not heard the left upset about that.

They are not necessarily endorsing it, but I am saying the irony is politically there is very strong support for many of the proposals that came out of the NPC which recognized that you may have to take steps, and if you are serious about retaining a market economy in oil, you must be prepared to take a variety of steps when the situation gets out of hand.

It was like the previous witness, Mr. Kessler just testified from the Center for Strategic Studies that he viewed it as protecting the market, not as eliminating or ending the marketplace, and there is sort of an ideological fervor I find difficult to comprehend and think it will vanish the minute we have a real problem on our hands, which is saying, oh, my goodness, no, this might appear as if we are intervening in the marketplace, so therefore somehow if we don't make a preparation, we won't be able to do it and therefore we won't do it.

Well, I have just seen too many people from the ideological right in this country, as well as the left who, the minute the crisis is at hand, say, I have to do something, my farmers don't have fuel for planting and homeowners don't have heating oil, and something must be done, and they suddenly lose all of the principle of restraint they have spoken for for many years.

Mr. Rosapepe. Obviously I agree with you, Mr. Chairman. I think the theories of the extreme right are not doing very well these days on a variety of fronts. But leaving that question aside, the one area where I really agree with the NPC report, and it has floated into a lot of discussion of this issue in a fuzzy way, is the notion that you don't need to intervene, whatever that means, except in an extreme disruption.

I think the point Mr. Weil made is very relevant, that you do not need to wait for Saudi Arabia to go down to have a problem, and that a lot of these options and capabilities are important in a variety of circumstances. I think too much of the debate has ended up getting locked into the worst case scenario, which is by definition the least likely to occur.

So I just underline that point. It applies to the SPR as to much as anything else. There was a big debate the NPC had, as I think I testified on last fall before your subcommittee, with Exxon taking the position you should not use any SPR oil until you get to 500 million barrels, and a variety of the oil companies and nonindustry folks said that is ridiculous.

That is the kind of issue that still needs to be resolved because it is not going to go away.

Thank you.

Mr. **Sharp**. Well, gentlemen, thank you very much. We appreciate your testimony.

The subcommittee will stand in recess until tomorrow morning when we will continue on this particular subject.

[Whereupon, at 12:02 p.m., the hearing was recessed, to reconvene the following day, Wednesday, March 10, 1982.]

# DOE'S EMERGENCY PREPAREDNESS BUDGET

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WEDNESDAY, MARCH 10, 1982

House of Representatives,
Subcommittee on Fossil and Synthetic Fuels,
Committee on Energy and Commerce,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 10 a.m., in room B-318 of the Rayburn House Office Building, Hon. Philip R. Sharp (chairman) presiding.

Mr. Sharp. The subcommittee will come to order.

Today the Subcommittee on Fossil and Synthetic Fuels convenes the second day of hearings on the impacts of the administration's proposed fiscal year 1983 budget cuts on the emergency preparedness, energy information and international affairs programs of the Department of Energy.

In summary, yesterday's witnesses provided the subcommittee with an overview of the Government's previous efforts in emergency preparedness, pinpointed some of the successess and shortcomings of these efforts, and detailed how the administration's proposed budget cuts would seriously diminish our future capability to mitigate the negative impacts of energy supply shortfalls.

Today we have several panels of witnesses. We are delighted to have as our first witness the very distinguished Dr. Ulf Lantzke, who is the Executive Director of the International Energy Agency, and who has been kind enough to testify before this committee in the past. Dr. Lantzke, we welcome you as a witness this morning.

## STATEMENT OF DR. ULF LANTZKE, EXECUTIVE DIRECTOR, INTERNATIONAL ENERGY AGENCY

Mr. Lantzke. Thank you, Mr. Chairman. I have submitted my testimony in written form to the committee and so I will submit my statement.

I am Ulf Lantzke, Director of the International Energy Agency. The IEA was formed in 1974. It has 21 industrialized countries as members. The principal authority is the Governing Board, which are representatives from government, foreign ministers, and energy ministers from government. It has a secretariat with a professional staff of 61, including 14 Americans.

The main issue you have asked me is an assessment of the current situation and questions in connection with the validity of emergency system which is set up in the IEP, the international energy program.

The current oil market situation has changed from about ten months ago. We should remember always that it is only ten months, that the whole situation has turned around. At present, available supply exceeds the amount by a considerable margin.

1982 world oil demand we expect to be somewhat lower than the 1981 figure, which in turn was 5 percent below 1980, and ten percent below 1979.

IEA oil demand, that is basically the industrialized countries' demand, may fall 2 to 4 percent below the 1981 figure, which was around 13 percent below the 1979 figure. So we expect for the current year still a slightly decreasing demand but not as spectacular as we have seen in the last 2 years.

On the other hand, world crude oil production continues to be demand constrained. Relatively stable, non-OPEC production will persist and as a result, OPEC—all the OPEC countries—will have the burden of adjusting to the oil demand, somewhat showing an overreaction downward as upward, because at the moment, in our view, they are virtually the swing producer in the world market. So we regard the swings in OPEC demand, as always, a bit exaggerated as compared with oil demand development in the world.

The medium-term outlook will depend, to a large extent, on what the economic prospects will be as we assume recovery in 1983, with about 3 to 3.5 economic growth. In industrialized countries we would see oil demand going back to 47 to 48 million barrels a day, which would mean a demand for OPEC oil of about 23 to 24 million barrels a day in 1983, and which in turn, if the recovery persists, could go up further to a level of OPEC requirements by 1985 of 25 to 26 million barrels a day, a number which would still be within the production capacity which OPEC might be willing to bring to the market.

So we do not foresee accidents or political events—leaving that possibility aside for the moment—we do not foresee a tight market reoccurring before 1985-86.

After 1985-86, again assuming that we reach satisfactory levels of economic activity in the world, we could arrive again into a situation where demand for oil in the world would come up against a ceiling of available production capacity.

We also warn in general against reading too much into statistical trends in the energy market of 1 or 2 years. We very much prefer to take a longer period of time in order to judge what progress has really been made in changing the energy mix in industrialized countries.

Here there has been progress between 1973 and 1980, quite considerable progress, partly because of market forces, partly because of supporting policies by government. The figures are in the written testimony, but it may be interesting just to throw out a few.

In that time from 1973 to 1980, real GDP in industrialized countries grew by 20 percent, total energy requirements only by 4 percent. Oil requirements have dropped by 3 percent, and oil imports have dropped by 14 percent.

Another figure which may be interesting is oil used to produce one unit of GDP. Over the period of 1973 to 1980, it has fallen 20 percent and, on the other hand, domestic energy production has gone up altogether by 13 percent.

So the process of change toward a better energy mix is underway. The results that we have seen are, given the long leadtimes needed in this sector, quite presentable.

What we are concerned about is that the momentum which has started in the time between 1973 and 1980 might get lost under the present situation, which shows a new set of problems. I would not say the problems have increased over the last 10 months or so, but it is a new quality of uncertainty which in some way is as uncomfortable as the uncertainties we had before.

What do we see as a result of the recent strong decline in oil consumption? We have less worry, clearly less worry, over near-term supply, but we still see the possibility of political disruptions of supply occurring on short notice. We do witness a downward price movement, but nobody knows to what extent and what the effect on the economy will be.

We do register increasing consumer and investor uncertainty which might reverse consumption trends and might threaten the development of alternative energy resources, even as economics dictate such change.

We recognize a certain extent of growing complacency among the public which in due course also would be reflected in Government policies. On the other hand, we are convinced that the fundamentals of the situation have not changed, that the present situation may be comparable to the situation in 1976 or 1969–70.

Following the 1973–74 price crisis, we had a recession too. Demand was low in 1975–76, but it only took a revitalization of the economy to bring about between 1976 and 1978 an increase in OECD oil demand, by 4.4 million barrels a day—a switch in the market conditions which was as rapid as the present downturn. So we are concerned that the basics are being forgotten and that the momentum that has started might get lost.

As an organization, we were created to protect the economies of industrialized countries from serious economic damage resulting from sudden developments in the oil markets. Basically, we have two tools available. One is emergency preparedness and the other is changing the energy mix to reduce oil dependence and emergency preparedness. We have a formal system which is triggered when there is a shortfall of 7 percent of supply in the group or selectively in the individual countries.

We have tested this system several times, the last time in October–November. The October–November test has shown that it is operational, despite the changes which have occurred since its implementation in the oil market. The next test is slated for May–June 1983.

Responding to one of your questions, we do intend, but we do not know yet exactly how, but we do intend to test the pricing of oil, which may well prove to be the most difficult problem that we would have to overcome.

There was some discussion also of how to react to minor disruptions. We did have two—one following the Iran revolution, one following the Iran-Iraq war. Both were limited in time. Both were limited in their direct impact and yet the Iran revolution has shown that the economic consequences can be highly undesirable even in the case of a minor shortfall.

Our Ministers, in June 1981, expressed a wish not to have a repeat of events as they occured in 1979/1980. They felt that supplementary action in such a situation by governments might be necessary.

We have reached agreement in December in the Governing Board that there would be a permanent information system which will enable us to make an assessment of the actual situation at any given time, should a shortfall of whatever nature occur, and we have agreement of the Governing Board to meet and consider the overall situation and also to consider if the situation would best be left to market forces or if supplementary action would be advisable in a situation of that type.

On structural change, our main task at the moment is to keep up the momentum. I am not too concerned at the moment about development in coal because here we have seen that the interest of potential investors is still alive and activities are still maintained. We have not seen too much impact in statistical terms, but we did not expect to make an impact in the short term. We would expect a bigger impact in the second half of the eighties.

We have an overall commitment of most of our member governments to further nuclear development and we are satisfied that in Japan and Europe, despite some difficulties, nuclear development is progressing. I must confess I am a bit concerned with the situation in the United States because of the many cancellations which are taking place over here.

Basically, I would believe that the efforts in the direction of improving energy efficiency will be maintained because as long as prices are going a little bit lower, that should be quite an incentive to invest.

Finally, on synthetics, we have two basic unknowns here. We do not know what quantities will be required by the market in the 1990's, and we do not know whether the technology is to be commercialized in the 1980's. We have been advocating a type of insurance policy in this area where one would build one or two commercial-sized plants worldwide in order to test the technology and bring it up to date. It is basically all known technology. It is not radically new technology.

Concluding, Mr. Chairman, I would say that energy investors and consumers in industrialized countries need strong and credible signals from government, first as to the true meaning of the current situation—and our view clearly is that the fundamental energy situation has not changed; it is overlaid by temporary factors. Second, that we need to consider conservation and alternative energy investments. Third, that we need to maintain the capability to deal with changing market conditions, including supply disruptions, in order to prevent such supply disruptions as disasterous to the overall economy, as they had in the wake of 1979–80.

Thank you very much.

[Testimony resumes on p. 121.]

[The prepared statement of Dr. Lantzke follows:]

Statement of Dr. Ulf Lantzke
Executive Director, International Energy Agency

Subcommittee on Fossil and Synthetic Fuels,
Committee on Energy and Commerce,
United States House of Representatives
10 March 1982

## Introduction

Mr. Chairman: I am Ulf Lantzke, Executive Director of the International Energy Agency. The IEA was formed in 1974 and is composed of 21 major industrialized countries. The European Economic Commission also participates in IEA activities.

Major decisions of the IEA are made by the Governing Board, composed of Ministers or their high-ranking representatives from each of the participating countries. Four Standing Groups and a Committee on Research and Development report to the Governing Board. The Standing Groups each deal with a principal area of concern to IEA governments, namely, long-term energy cooperation, the oil market, emergency questions, and relations with producer and other consumer countries. The IEA Secreatariat, which is headed by the Executive Director, is composed of 61 professionals, including 14 Americans.

Industrialized countries had one overriding objective in setting up the IEA. This was to protect the economies of oil consuming countries from serious adverse economic impact resulting from highly unusual developments in energy markets, but principally the oil market. We are all familiar with the disorganized reaction to the 1973/74 oil embargo and unprecedented price increases. The scramble for oil supplies, while perfectly natural from the national point of view, did little to enhance a common understanding of the situation. The 73/74 events, both the oil developments and our reactions to them, did, however, finally convince Western political leaders that energy security could best be attained through adequate preparation against unexpected supply disruptions and long term structural change. They also realized that to be effective, both of these efforts required international coordination.

Industrialized countries also realized that to begin to understand the tremendous change which was taking place in the international oil market, with the consequent repercussions on global political and economic relations, required an objective assessment of world oil and energy markets. In assessing energy supply and demand developments, overall in global terms and in individual countries, the IEA has been able to identify areas where energy policies could be strengthened. This has enabled member countries to better align their domestic policies with the realities of energy markets.

There was a basic, underlying political objective in setting up the IEA, one which went beyond the need for pragmatic measures to deal with major oil disruptions. This was to reduce the possibilitity that energy could become a source of friction among industrialized countries. It is natural that industrialized democracies will have differences of opinion on the fundamental issues confronting them. At the risk of over-generalizing, let me cite just two examples: East-West relations and the Middle East situation. There are other areas of potential strain - in the economic, financial and social spheres - where disagreement can disrupt efforts to reach consensus on the basic issues facing industrialized democracies. Energy should not, and need not, be among them. The technical, financial and natural resources needed to cope with the energy problems of the foreseeable future exist within IEA countries as a group. Therefore energy should not be, and since the creation of the IEA in 1974 has not been, a source of significant political tension for industrialized countries. This is not, I think, a minor accomplishment.

## Current Oil Market Situation

I would like to discuss briefly current developments in the international oil market, the significance the IEA attaches to them and how we see medium term developments. It is important that we not assign long term significance to what may be temporary developments on the spot market, where only 5% of oil is traded. Nor should we confuse spot oil price developments with contract oil prices.

### A. Demand

Demand continues to fall at a surprisingly rapid rate. Preliminary IEA estimates suggest that oil consumption in First Quarter 1982 may be 5-7% below First Quarter 1981. This in turn suggests that world oil consumption in 1982 as a whole may also be down on the 1981 figure, which is already 5% below 1980 and 10% below 1979. For IEA countries, 1982 oil consumption may fall 2-4 % below 1981, which was already 7 % below the 1980 consumption and 13% below the 1979 figure.

These declines in oil consumption, measured from the very high base year of 1979, have occurred partly as a result of more or less permanent structural changes in oil use (substitution away from oil, conservation efficiency improvements) but partly also as a result of cyclical and special factors (prolonged slow rates of economic growth, present economic recession, weather, consumer stocking, etc.).

The extent and magnitude of the continued impact of structural changes in oil use, the recession, and the effect of the 1979-80 price increases remain highly uncertain. Among the factors which could individually, or more importantly together, serve to increase demand above our current estimates are:

- higher than expected rates of economic growth;
- reversal of secondary and tertiary destocking;

- higher rates of government stock build such as the U.S. strategic petroleum reserve;
- consumer responses to declines in the real price of oil;
- continued increases in oil demand in developing countries
- abnormally severe weather conditions.

While we should be cautious about reading too much significance into statistics of just the last two years, there is reason to be encouraged if we look at what has happened to energy use since the 1973 oil crisis. Structural change is necessary to remove energy as a major constraint to sustained, non-inflationary economic growth and to reduce oil supply vulnerability. The main objectives of this structural change are to use energy more efficiently and to reduce dependence on oil so as to achieve a more balanced mix of energy sources that is less exposed to supply security risks. The table below shows that structural change in the energy economies of industrialized countries is under way and has already yielded lasting results.

## Some Indicators of Structural Change

(Percentage Changes, 1980 over 1973, total OECD)

| | |
|---|---|
| Real GDP | + 20 % |
| Total Energy Requirements | + 4 % |
| Oil Requirements | - 3 % |
| Oil Imports | - 14 % |
| Energy used to produce one unit of GDP | - 13 % |
| (TPE/GDP ratio) | |
| Oil used to produce one unit of GDP<br>(Oil/GDP ratio) | - 20 % |
| Domestic Energy Production | + 13 % |
| Oil | + 9 % |
| Coal | + 23 % |
| Nuclear | + 206 % |

These trends have gathered momentum in recent years. Over 1981, energy and oil use relative to GDP fell further, representing a decline of 16% and 26% respectively as compared to 1973 levels. On the supply side, two-thirds of the total increase in domestic energy production came on stream in 1979 and 1980 only.

## B. Oil Supply

On a global basis world crude oil production continues to be demand constrained. With relatively stable IEA and other non-OPEC supplies, the burden of adjustment to lower demand is falling on OPEC production. First Quarter 1982 OPEC production may well now be no more than 20.5 mbd (including NGL) as compared with around 22 mbd in Fourth quarter 1981 and 31.6 mbd at its annual peak in 1979.

Furthermore, many oil companies have publicly indicated their intention of reducing stocks substantially in view of falling demand, high interest rates and falling oil prices. IEA estimates indicate that this has not generally occurred suggesting that companies have once again been overtaken by the fall in demand, leaving them with unsold oil. If companies succeed in reducing their stocks in line with their present intentions, this would produce an abnormally low, and possibly even negative, stockbuild during this summer, leading to a continuing low demand for OPEC oil but also a substantially lower stock coverage at the start of next winter.

## C. Prices

The fall in the oil consumption and more than adequate supply has led to downward pressure on prices. The extent of the price fall so far should however not be exaggerated. Since the beginning of the year the weighted average price of OPEC sales has fallen by 63 cents and the average world market price by $1.35/bbl or 4%. But OPEC government selling prices are still more than 160% above the level of end 1978. Though some further decline seems not unlikely, there can be no question of our getting back to anything approaching the level of oil prices which obtained before the Iranian revolution, even allowing for inflation.

Nevertheless, a constant danger persists that the current low level of oil consumption and declining prices could lead to complacency in major consuming countries, as well as increased uncertainty about future trends. These factors could cause postponement of investment in efficiency and substitution, as well as in developing non-oil energy sources. The result could well be higher dependence on oil later in the 1980s with the danger of substantial upward price pressure - or indeed even another oil shock -- in the second half of the 1980s.

## The Mid-term Oil Outlook

Assuming 45-46 mbd world oil demand (outside the Communist countries) in 1982, a recovery in the world economy in 1983 (3-3.5% economic growth in OECD), coupled with declining real oil prices, could result in growth in oil consumption of about 1-1.5 mbd in 1983. Recovery of the economy would also result in some stockbuild - assumed at 0.5 mbd. This would mean a growth in overall oil demand of 1.5-2.0 mbd. Hence, total demand could be 46.5-48.0 mbd. With total non-OPEC output estimated at 24 mbd, demand for OPEC oil could range between 22.5 and 24 mbd in 1983.

If, however, the U.S. recession continues and overall economic growth remains at about 1.5% in 1983, oil demand may remain at 45-47 mbd with little stockbuild. In that case demand for OPEC oil could even decline further.

Assuming again a continuation of the economic recovery, spearheaded by the U.S., the IEA scenarios for OECD oil demand in 1985 are between 35 and 36 mbd, and total WOCA demand of 48-50 mbd. Non-OPEC output is estimated at 23-25 and demand for OPEC oil at 25-26 mbd. This compares with a 1980 demand for OPEC oil of 27.6 mbd, and with current "willing" OPEC capacity of perhaps 26 mbd, or close to 30 mbd if the Iran-Iraq war ends.

## The Need for Emergency Preparedness

Many people are understandably confused about the significance and meaning of what is actually happening in the oil market. It would perhaps be helpful to step back a bit and review what happened just six years ago. The present situation may be compared with 1976 when, following the 1973-74 price rises and the ensuing world recession, world oil demand was low and there was significant spare OPEC production capacity. This apparent calm proved deceptive. By 1978, in response to economic recovery, OECD oil demand had risen by 4.4 mbd from its 1975 low point. When the Iranian revolution disrupted production, a further price explosion resulted. Some in industrialized countries misinterpreted the message in 1976 and, as a result, efforts to reduce oil dependence slackened. As a consequence, industrialized economies are today, some five or six years later, in the throes of a severe recession, one which has seen OECD unemployment climb from 19 million in 1979 to a projected 28 million by the end of this year. The serious social and political ramifications of such a rapid rise in unemployment should be clear to all policymakers.

The member countries of the IEA have committed themselves to cooperate closely should external events disrupt more than 7% of IEA oil supplies. The formal emergency sharing system ensures that the remaining available oil is shared in a fair and equitable manner among IEA members in times of major disruptions. To achieve this goal, the system is composed of four major components: 1) a commitment to hold oil stocks of not less than 90 days' net imports which practically speaking all member countries have met; 2) a commitment to reduce demand -- the amount depending on severity of a given situation; 3) equitable allocation of remaining oil supplies and 4) an international data reporting system based upon submissions from 48 oil companies covering 80 percent of international oil supply.

To complement the international emergency sharing system, most Member countries have developed a compatible national system for distributing oil internally. These national emergency sharing organisations (NESO), established on a stand-by basis, would be responsible for national oil emergency measures and consult with the IEA on matters of international allocation in an emergency. Subject to observing IEA demand restraint commitments, each NESO has complete discretion over the national emergency oil allocation measures it implements. It is presumed that government authority for national oil emergency management would involve cooperation with oil companies operating nationally. For the effective working of the IEA's international oil allocation system, it is necessary that NESOs ensure, as far as possible, that companies which give up oil for international allocation are not disadvantaged nationally.

Specific NESO responsibilities under the IEA emergency sharing system include:

- to collect and submit data to the IEA Secretariat including the data for companies which do not report directly to the IEA;
- to maintain an accurate national data base and monitoring system to facilitate fair sharing provisions;
- to coordinate in cooperation with industry the implementation of national demand restraint measures, stock policy and refinery yield policies;
- to assess the national product supply and demand situation to ensure that all efforts are made to solve national product imbalances locally.

System Readiness

The emergency sharing system has been tested under simulated crisis conditions three times over the past several years. As a result of the tests, the major components of the system are constantly being modified to keep them in line with changing oil market conditions.

The most recent test, held in October and November 1980, proved conclusively that, mechanically and operationally, the Emergency Sharing System will perform as envisioned. The recent test showed that changing patterns of world oil supply are not a major problem. While major oil companies may not control as much oil production at the wellhead as they once did, they are still the primary distributors of crude and products. Even if the major oil companies were to lose significant amounts of crude imports (which to date they have not), sharing would still proceed via the reallocation of products.

Certainly a major concern of IEA Member Governments is the potential allocation of their own oil. I can assure you that this concern is not held only in the U.S. First of all, it is important to remember that were the U.S. itself the target of another selective embargo, then the U.S. would receive oil from others. On the other hand there are cases where the U.S. might have to share some of its imported oil to assist other countries. Even in this case the U.S. would stand to benefit. First, U.S. participation would help maintain the security, economic and social stability of other industrialised countries. Second, the U.S. economy would benefit from the dampening effect on prices which would result from the IEA emergency system. So as you can see it is not a one way street. Given the wide range of possible upsets in the oil market, I strongly believe that, like in 1974, if we did not have the system we would have to invent it.

Planning for AST-4

The IEA will next test the emergency sharing system in May-June 1983. Planning for the fourth test, code-named AST-4, has commenced under the chairmanship of a representative of the U.S. Department of State. A Design Group composed of 7 government representatives, 6 oil company representatives and the IEA Secretariat will meet regularly in the coming months to prepare the technical arrangements. I anticipate that we will hold a briefing early next Spring for those in the Industry Supply Advisory Group, the NESOs and the Secretariat who will be involved in the test. During the test, the full Industry and Secretariat teams will be in place at IEA headquarters in Paris. As in the previous three tests, oil companies will be asked to provide the IEA Secretariat with data based on an historical period preceding the test by quite a number of months.

The main objective of the Test is to continue the periodic training of personnel in member countries, the oil industry and the IEA Secretariat in the system's data and emergency oil allocation procedures. We will be examining how best to involve NESOs to ensure maximum practical experience for national governments. In addition we are considering whether principles for pricing of allocated oil should be tested in AST-4. Oil pricing is clearly a critical element in the allocation of oil. It can be a major factor in the willingness of oil companies to make voluntary offers of oil.

The IEA emergency allocations system does not contain a formal pricing mechanism. Instead it establishes, as general guidance, that the price for allocated oil shall be based on the price conditions prevailing for comparable commercial transactions. This approach reflected the view of most governments at the time that in an emergency, prices should, insofar as possible, be negotiated freely between trading partners. It has since been recognized that some cases may require mediation and the system now provides for this.

The pricing question is an extremely difficult one, since one of the primary purposes of the allocation system is to avoid price escalation arising from a scramble for short supplies. In addition, antitrust limitations restrict the extent to which price can be discussed. However, the question is being addressed urgently within the IEA to see how pricing elements can be injected in the forthcoming test. This is a complex issue which will test the practical ingenuity of industry, government and Secretariat officials.

In concluding on this point, let me stress that the Emergency Sharing System is a vital element of international economic cooperation. With its effective operation, detrimental economic and political repercussions are avoided. It is operationally sound, and the problems which do exist are being carefully considered and remedied. I hope that we never have to trigger the system. But in the event that it is required, I am confident that it will perform as expected given the political support and international cooperation of all member countries.

## The Non-Emergency Situation

I understand, Mr. Chairman, that my testimony should also focus on the desirability of contingency planning during non-crisis periods. To simplify, I would say that without contingency planning during periods of relative calm in the oil market, we should have no illusions about coping with even a minor crisis should one develop.

I believe there is no disagreement among member countries that there must be adequate preparation to deal with major emergencies. As I stated earlier, the formal emergency sharing system is operational, and, with the exception of periodic fine-tuning, does not require any re-working.

The other aspect of contingency planning relates to possible supply disruptions of less than 7%. Experience showed in 1979 that it does not take a major oil disruption to put heavy pressure on world oil supplies and prices. With the Iranian revolution the world had a temporary loss of about 2 million barrels of oil per day. This was not an amount sufficient to allow triggering of the Emergency Sharing System, but it was sufficient to create an overall situation in which some national and company responses resulted in significant pressure on available world supplies. In the end the shortfall was shortlived. But overly competitive attitudes and very large stockbuild, largely precautionary but to some extent speculative, provided an environment in which major producers could increase prices some 150 percent over 18 months.

By contrast, in part because of experience gained in 1979, the response to the supply interruption caused by the Iran-Iraq war was more satisfactory. A comprehensive data system was in place and had been operating for quite a few months, which permitted a rapid and reliable assessment of the situation. Stocks were relatively high. In October 1980, in the very first days of the supply interruption, governments met promptly at the IEA and clearly expressed their intention that, among other things, undesirable market activities be dampened and stocks drawn. This intention was repeated by IEA Ministers in December 1980. The supply interruption did serve to support and slightly extend the 1979 price increases, and one member country did have some difficulty in meeting supply requirements. Nevertheless, we were successful in avoiding another major increase in oil prices.

The experience of the 1979-80 events in the oil market shows that the results of relying only on market forces may, under certain circumstances, be harmful to the collective interests of industrialised nations, and, indeed, to the world economy. It needs to be borne in mind that the world oil market is characterised by a high degree of political control over supply. In such circumstances, at least in the short-term, market forces can really act only on the demand side, and even there only with some delay. The result can be -- as we have seen -- extraordinarily large and costly increases in oil prices, with depressing effects on economic growth. It is therefore only prudent for nations to prepare contingency plans, including the possibility of collective government action, which could be brought into effect to supplement market forces when necessary.

At their last meeting in June 1981, IEA Ministers expressed the determination of their governments that the IEA and its member countries should be prepared to prevent a disruption in oil supply from again resulting in sharply higher prices and severe economic damage. They agreed that the full implementation and strengthening of market forces in consuming countries would contribute heavily this objective. In addition, they felt that supplementary action by governments might be necessary in those areas where market forces do not sufficiently counteract the adverse impact of supply disruptions, particularly in international markets. IEA Ministers stated that, were such action to be necessary, it would have to be flexible in responding to the particular situation at hand and at the same time be taken promptly and effectively.

Responding to the request of Ministers, the IEA Governing Board has examined how member countries could better prepare for possible future supply disruptions. There is complete agreement that developments in the oil market need to be monitored continuously. A modified and simplified information system has been agreed to which permits the IEA Secretariat, through data submitted by national governments, to monitor oil supply, demand and stocks of IEA countries and worldwide. IEA countries are supplying to the Secretariat monthly country data on:

- indigenous production
- imports by origin
- exports
- stock levels and changes
- apparent consumption
- world-wide stocks at sea.

The country data is aggregated from company reports, and should be accompanied by any additional information which governments can provide. This new reporting system began last month. Although it is clearly too early to make a definitive assessment of the new system, first indications are that it will fulfill its objectives. Should a supply disruption develop, the Executive Director may decide to activate submission of Questionnaires A and B, consistent with procedures established for the emergency allocation system.

In addition to the new reporting system, the Governing Board agreed on measures which it could, inter alia, consider should a minor supply disruption occur. These measures would include those which had been used in the past, such as:

- discouragement of abnormal spot market purchases or other undesirable purchases
- lowered consumption
- short-term fuel switching
- high levels of indigenous production
- stocks and stock policies, through government consultation with oil companies
- informal efforts to minimize and contain the effects of supply imbalances

Any measures which are agreed upon by the Governing Board will be applied on an IEA-wide basis, although the detailed methods of implementation will be decided by governments in accordance with national law and the IEP, and could vary from country to country while aimed at achieving the overall result desired on an integrated basis.

I would conclude from this brief discussion that there are at least three essential components of a successful contingency plan. They are:

- a functioning and reliable data system;

- preparedness of governments to respond quickly when a supply disruption occurs and, if necessary, to take action; and

- an ability of oil companies to provide the underlying data to national governments and contribute to the overall results decided upon by governments.

## Conclusion

I would like to conclude, Mr. Chairman, with a few general remarks. I have mentioned my concern about the general complacency with which some view the energy scene. This is most misleading as it indicates a desire to prophesy good times from a few good incidents. I would agree that the world oil market may well remain relatively stable over the next few years, barring political surprises. But as we look forward through the 1980s, the possibility is very real that renewed economic growth in the industrial countries, together with rapidly growing demands for oil in OPEC countries, other LDCs and maybe the centrally planned economies will once again put increasing pressure on the oil market.

It is essential that those responsible for energy policy, and ultimately that includes all of us, ensure that every reasonable effort is made to protect against the economic consequences of a further oil price shock. If a calmer oil market in the next several years frees us from short-term supply disruptions, governments and the private sector should use the time to move ahead with the strategies necessary to implement longer-term energy objectives. Energy investments require long lead times before they become productive. So the decisions we make -- or do not make -- today will affect us in the late 1980s and early 1990s.

We must resist the temptation, in a period of calm on the oil market, to dissipate the achievements of the past eight years. We need to re-examine what is meant by the stability of energy relations. This is true for all international energy arrangements, be it oil, coal, gas or nuclear. We face an intellectual and political challenge to fit the various aspects of international energy supply into a coherent framework. Clearly, the industrialized countries are just one part of the global energy picture. However, we do have the means, and the evidence shows that we also have the necessary political will, to bring together energy policymakers in a common effort to secure a stable energy future.

Mr. **Sharp**. Thank you very much, Dr. Lantzke.

If I understand then, basically you say the fundamentals have not changed, so we cannot ignore the continuing problems we may face in the future on energy fronts.

How would you assess, though, among the member countries the governments' attention to energy crisis planning at this point? You alluded to the fact that perhaps there is a growing complacency within the public and that it may take hold in governments. Is it your impression that it has already taken place in government?

Mr. **Lantzke**. At the moment I would not think that is the case. We have seen in the governing board very strong concern expressed. That is, the issue of complacency might lead to a reduction in efforts and a reduction in investment in alternative energy sources. Goverments in their national policies should undertake an effort to make this point clear to potential investors.

It is natural that over time—and that is my real concern; it is not the concern at this point in time—but that over time, if public complacency spreads, then in our systems of democracies this comes out in the end in government attitudes and government actions. I have talked to several governments on this issue. The concern was very real and very explicit in this direction.

Mr. **Sharp**. Yesterday we had testimony from a gentleman from the Center for Strategic Studies at Georgetown University. He had recently returned from discussions in Europe with a number of Europeans and he came back with a report that there was a growing perception in circles in Europe that the United States had become quite complacent on energy emergency matters.

Is that a perception that is growing or real?

Mr. **Lantzke**. There is concern in that direction, I would think, but I would put that concern more to the fact that from outside the United States, at the moment, it is not absolutely clear what changes will finally take place in energy policies in the United States.

Naturally, given the weight of the American market in the world energy markets, standing for about 50 percent, events in Washington are closely followed in European and Japanese capitals. I would not say that to date there is any real concern. I think it is more a concern to see things sort themselves out and have a better assessment of the effects of the changes which are implemented in the U.S. energy policies in as short a time as possible.

Mr. **Sharp**. Let me ask you, with respect to the IEA, as you know, in our law we provide an antitrust defense for our oil companies. The standby petroleum allocation bill now before the President includes an extension of that antitrust defense. If that is vetoed there will be a gap in the time that the defense is available. What will the gap mean to the cooperation of our oil companies in IEA activities?

Mr. **Lantzke**. That would be most unfortunate because authority would expire, I think, on the 31st of March, and I would believe that preparedness of the oil industry to participate (a) in the data collection system, (b) in the testing of the emergency system would depend on adequate protection on the antitrust side.

So we would have considerable difficulties (a) in our preparedness to make an assessment of the possible impact of the possible interruption at a given time because of uncertainty about the underlying data, and (b) we would not have the possibility of keeping the emergency system up to date.

We would certainly have to discuss such a situation at an appropriate stage in the agency.

Mr. **Sharp**. How quickly would that have an impact on you, do you think, if it expires? Do you think you can sort of muddle through for a while or will you just stop getting data?

Mr. **Lantzke**. It is very difficult to answer. I would think that the quality of the data which is due on the 20th of April would be questioned or could be questioned. We have a monthly system and carry forward the data systems on a monthly basis, which is the only way to really insure an assessment of availability at all times. At the moment the flow of data is interrupted, the reliability of data is questioned.

Mr. **Sharp**. Would it be possible to rely on data from the Energy Information Administration from the U.S. Government if that were the case?

Mr. **Lantzke**. We get the data from the U.S. Government. The understanding is that governments will collect the data on their side from companies and then aggregate them and give the aggregated results, feed that into the IEA system.

That was the understanding when the data system was established, because everybody was concerned that just overall assessments done on the basis of general economic indicators would not supply sufficient preciseness for a data system of this type to be used in this sense.

Mr. **Sharp**. Well, obviously that is something we have to resolve here, but I am sure you are aware—you have heard the fact that there are Members of Congress who will do everything they can if there is a veto on the Standby Petroleum Allocation Act, to say to hell with it, not provide an antitrust exemption. The Congress has done its job. The administration is not going to do its job. And some people are going to filibuster and do other things to make it very difficult for what in the past has been a very cooperative effort.

But that is not something—it does concern you, but I realize it is not something about which you wish to comment.

Let me ask you what is the status of the subcrisis planning effort? You alluded, I believe, to some of the effort that has been underway.

Mr. **Lantzke**. I think there is consensus among our member countries that this is a situation where governments should be concerned should a situation like that occur. There is also consensus that one cannot possibly design a system ahead of the situation because situations of that type will very much depend on many factors, and the impact of a shortfall—of the smaller shortfall—can have many forms.

It could be, as it would be now, a shortfall of 2 to 3 million barrels a day. Presently, such a shortfall would probably have no impact on the world market at all because there is enough spare capacity around to make up for a shortfall of that type. In other circumstances it might be regarded as being highly desirable that governments take supportive action in order to avoid far-reaching damage.

So what we did on December 10, is reach agreement that governments would consider the situation seriously, would consider seriously if supportive action to market forces should be taken, and we also outlined a number of possible actions without agreeing beforehand what action would be taken.

We think that agreeing on some specified types of possible action gives governments the freedom to act because otherwise one would only start to think at the time the event occurred. There probably would not be time to think out the most effective and most light-handed approach to the situation.

We do hope we have in place a system that gives the necessary flexibility but also provides for prompt and coordinated action should that be thought to be the appropriate approach at the time.

Mr. **Sharp**. I trust that generally IEA members and the secretariat recommended that governments be prepared to move to demand restraint measures to facilitate what the marketplace is doing? Is that correct?

Mr. **Lantzke**. Demand restraint, also restraint from abnormal behavior in the stock market. Also, bringing onstream surge capacity which may be available in IEA countries at that time.

The one thing where there is still some thinking going on is in the area of stocks, and if stocks could be made use of in a situation of that type. But that is a very complex issue and there will certainly be more studies before that is finally settled.

Mr. **Sharp**. Let me ask you a question regarding your understanding of the people who do deal with the international oil companies. Obviously—do you think we can expect their cooperation in the IEA oil-sharing program if there is not in place some kind of fair sharing program among the oil companies domestically here?

Mr. **Lantzke**. Up until now, relations with the international oil industry have been encouraging. We have a formalized Industry Advisory Board for emergency systems which works under given rules, which has given valuable advice, and oil companies that participate in that group are willing to come up with quite an effort, I would say, a remarkable effort, to have an active counseling capacity through that body.

From the tests—and it is interesting to state that in the tests industry actively participates, industry does invest considerable resources at its own cost in those tests. Not only the operation in Paris, but there is an industry group to deal with the practical supply systems which come up in an emergency system and come up in our tests.

Industry has urged us not to delay the tests too long because they apparently are interested in keeping the machinery for the emergency system well in place, and have training of personnel not only in the IEA secretariat, but in the industry itself.

Mr. **Sharp**. Thank you very much. Mr. Corcoran, did you have some questions?

Mr. **Corcoran**. Mr. Chairman, I have not had a chance, unfortunately, to either read or be present to hear what Dr. Lantzke had to say, but I intend to examine pretty closely his statement. At this time, I do not have any questions.

Mr. **Sharp**. Dr. Lantzke, we certainly appreciate your cooperation and your willingness to testify and provide us further information that I know is dear to your heart. Thank you very much.

We are delighted now to have a panel of witnesses from the administration. Our first, Mr. E. Allan Wendt, Acting Deputy Assistant Secretary for International Energy Policy, of the U.S. Department of State; Mr. Henry Thomas IV, Assistant Secretary for International Affairs, U.S. Department of Energy; Mr. William Vaughan, Assistant Secretary for Environmental Protection, Safety and Emergency Preparedness, U.S. Department of Energy; and Mr. J. Erich Evered, Administrator of the Energy Information Administration.

Gentlemen, welcome, and you are all familiar with this process and we would be delighted to make your statements a part of the record, as we did for Dr. Lantzke's testimony.

Mr. Wendt, I believe you will be first. We would be delighted to hear from you at this time.

## STATEMENTS OF E. ALLAN WENDT, ACTING DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL ENERGY POLICY, DEPARTMENT OF STATE; HENRY E. THOMAS, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF ENERGY; WILLIAM A. VAUGHAN, ASSISTANT SECRETARY, ENVIRONMENTAL PROTECTION, SAFETY, AND EMERGENCY PREPAREDNESS, DEPARTMENT OF ENERGY; AND J. ERICH EVERED, ADMINISTRATOR, ENERGY INFORMATION ADMINISTRATION, DEPARTMENT OF ENERGY

Mr. **Wendt**. Thank you very much, Mr. Chairman. I am pleased to accept the subcommittee's invitation to testify this morning on the role of the Department of Energy in emergency preparedness, and international energy policy. I have submitted a written statement for the record, Mr. Chairman, and I will confine my comments now to an oral summary of my written testimony.

As you know, the administration has proposed a reorganization of energy functions in the executive branch. This morning, I will outline from the perspective of the Department of State the contributions made by the Department of Energy to the formulation of international energy policy. Under the reorganization plan, as you know, these functions in the future would be lodged primarily in the Department of Commerce.

By way of introduction, Mr. Chairman, I think it would be useful for me to review briefly what, in our view, constitutes international energy policy. I would identify three elements.

First of all, world energy market monitoring and analysis. There is a constant demand within the U.S. Government for oil market data and analysis of market trends.

Second, the conduct of relations among governments relating to international energy trade. The United States imports oil and gas. It exports coal and nuclear fuel. In virtually every country of the world, governments are heavily involved in decisions relating to trade and energy. Inevitably, therefore, the U.S. Government finds itself drawn into discussions with other governments about international trade in energy. An example would be the efforts of the

U.S. Government to persuade other governments to import more American coal.

Third, organizing cooperation with other energy-importing countries to reduce the threat of supply disruptions. We pursue these efforts with other industrialized countries in the International Energy Agency. We also have programs for cooperation in this area with developing countries.

The Secretary of State has primary authority for the conduct of foreign policy relating to energy and nuclear nonproliferation. This responsibility was reaffirmed in the 1977 Department of Energy Organization Act. We perform this task with a relatively small staff. I have 12 officers on my staff, professional staff, working on international energy policy. The State Department also has a separate office, in our Bureau of Oceans and International Environmental and Scientific Affairs, with two dozen professional staff working on nuclear nonproliferation and international energy research and development cooperation.

Given the limited size of staff in the Department of State, we necessarily and inevitably rely on other agencies for technical and analytical support. In the energy area, the bulk of that support has been provided by the Department of Energy. At the same time, the Department of Energy has been primarily responsible for domestic energy policy. I need not dwell on the linkage between domestic and international energy policies. It is obvious to all. As a result, that Department of State and the Department of Energy work closely together to formulate policies in the international energy area.

In the view of the State Department, Mr. Chairman, each of the three offices whose budgets you are reviewing today makes a major contribution to international energy policy formulation. I have detailed in my written statement those functions which we consider to be essential.

Briefly, Mr. Chairman, the Energy Information Administration has collected, processed, and submitted to the International Energy Agency data which are essential to the operation of the IEA emergency system. The Office of Emergency Preparedness, in developing a strategy for responding to oil supply crises domestically, has had responsibility for insuring that the United States meets the requirements of the IEA emergency system in the area of national oil stockpiling, demand restraint, and international oil allocation.

The U.S. Government's primary oil market analysis group has been located in the Department of Energy's Office of International Affairs. That office has also carried DOE's statutory responsibility for coordinating the analytical, legal, and administrative work associated with maintaining and monitoring the participation of U.S. oil companies in the IEA emergency sharing system.

Finally, Mr. Chairman, we have shared with DOE's Office of International Affairs responsibility for nonemergency energy policy work in the IEA, and also at the annual economic summits, another of which is going to take place later this year in June. We also have shared responsibility with the Office of International Affairs for work on nuclear nonproliferation and energy R. & D. cooperation policies.

In summary, Mr. Chairman, the Department of Energy has performed a wide range of functions essential to international energy policy formulation. In particular, it has contributed to upholding the administration's commitment to fulfill its obligations to the International Energy Agency.

Following reorganization as planned by the administration, we would rely primarily on the Department of Commerce to perform these functions.

Thank you, Mr. Chairman.

Mr. SHARP. Thank you, Mr. Wendt, we appreciate your testimony. Mr. Thomas, I believe, is next.

[Testimony resumes on p. 165.]

[The prepared statement and attachment of Mr. Wendt follows:]

# THE ROLE OF THE DEPARTMENT OF ENERGY IN INTERNATIONAL ENERGY POLICY

STATEMENT
OF

E. ALLAN WENDT
ACTING DEPUTY ASSISTANT SECRETARY
OF STATE FOR INTERNATIONAL ENERGY POLICY

BEFORE THE

SUBCOMMITTEE ON FOSSIL
AND SYNTHETIC FUELS

U.S. HOUSE OF REPRESENTATIVES

MARCH 10, 1982

MR. CHAIRMAN,

I AM PLEASED TO ACCEPT THE INVITATION OF YOUR SUBCOMMITTEE TO PROVIDE THE VIEWS OF THE DEPARTMENT OF STATE ON THE ROLE OF THE DEPARTMENT OF ENERGY (DOE) IN EMERGENCY PREPAREDNESS AND INTERNATIONAL ENERGY POLICY. I WOULD NOTE THAT THE ADMINISTRATION HAS PROPOSED A REORGANIZATION OF ENERGY POLICY FUNCTIONS WITHIN THE EXECUTIVE BRANCH. THE DEPARTMENT OF STATE SUPPORTS THIS PROPOSAL. AS YOU HAVE REQUESTED, I WILL THIS MORNING DISCUSS THE CURRENT ROLE OF THE SEVERAL COMPONENTS OF DOE IN INTERNATIONAL ENERGY POLICY FORMULATION. FOLLOWING ENACTMENT OF THE REORGANIZATION LEGISLATION, THESE FUNCTIONS ARE TO BE PERFORMED PRIMARILY BY THE COMMERCE DEPARTMENT.

By way of introduction, I should outline the role of the State Department in international energy policy formulation. The State Department has long borne leadership responsibility within the Executive Branch for foreign policy in the energy area. This responsibility was reaffirmed in the 1977 DOE Organization Act in its statement that "... the Secretary of State shall continue to exercise primary authority for the conduct of foreign policy relating to energy and nuclear nonproliferation..."

At the same time, in the exercise of that responsibility, the State Department has always consulted closely with the domestic energy policy agencies. International energy policy must inevitably be consistent with domestic energy policy.

We have also depended heavily upon other agencies, particularly DOE, for the data-gathering and much of the technical analysis upon which we base our policy formulation effort. In State, I have a professional staff of only twelve working full-time on general international energy policy. Our Bureau of Oceans and International Environmental and Scientific Affairs, which carries responsibility within State for nuclear nonproliferation policy and international cooperation on energy research and development, has about two dozen professional staff assigned to this task. As a consequence, State must draw heavily upon other agencies for support in the performance of its policy responsibilities. Currently, DOE provides the bulk of this support.

In the emergency preparedness area, we have maintained a close working relationship with each of the three components of DOE whose future budgets you are reviewing today. Each of these offices has played an essential, statutory role in this area. The Energy Information Administration (EIA) has been the central body within the Executive Branch for the collection of energy data. In this capacity, it has had responsibility for preparation and submission of a number of reports to the International Energy Agency (IEA) concerning energy production and use in the United States.

Of particular importance to the operation of the IEA emergency system are the IEA Monthly Oil Statistics form and Questionnaire B. The Monthly Oil Statistics provide, with only a short lag, information on current national production, consumption, imports, exports, and stocks of crude oil and petroleum products. The IEA collates the submissions from member countries and publishes the results. It is the most up-to-date comprehensive report available on oil market developments in the IEA countries. Questionnaire B, in turn, is a report collected by the IEA during oil market disruptions. It contains disaggregated information about supplies of oil available to member countries, and thus is the basis for the calculation of country supply rights under the IEA emergency oil allocation system. EIA prepares the U.S. submission drawing on a number of reports submitted to it by U.S. companies.

DOE'S OFFICE OF EMERGENCY PREPAREDNESS HAS PRIMARY RESPONSIBILITY WITHIN DOE FOR COORDINATING DOMESTIC POLICY RESPONSES TO OIL SUPPLY INTERRUPTIONS. WE HAVE CONSULTED CLOSELY WITH IT TO ASSURE CONSISTENCY BETWEEN INTERNATIONAL ACTIONS CONTEMPLATED UNDER THE IEA EMERGENCY SYSTEM AND THOSE BEING TAKEN INTERNALLY IN RESPONSE TO DOMESTIC NEEDS.

PARTICIPANTS IN THE IEA EMERGENCY SYSTEM ARE COMMITTED TO CONFORM THEIR NATIONAL EMERGENCY PROGRAMS TO THE REQUIREMENTS OF THAT SYSTEM. THESE REQUIREMENTS RELATE TO OIL STOCK ACCUMULATION AND DRAWDOWN, TO EMERGENCY DEMAND RESTRAINT, AND TO INTERNATIONAL ALLOCATION OF OIL. FIRST, EACH COUNTRY IS REQUIRED TO MAINTAIN ON A CONTINUOUS BASIS OIL STOCKS EQUIVALENT TO 90 DAYS OF ITS IMPORTS DURING THE PREVIOUS YEAR AND AVAILABLE TO BE DRAWN DOWN IN A CRISIS. SECOND, EACH COUNTRY IS REQUIRED TO MAINTAIN PLANS FOR REDUCING DOMESTIC DEMAND FOR OIL ON AN EMERGENCY BASIS BY UP TO 10 PERCENT (ALTHOUGH, IN THE EVENT, COUNTRIES WOULD BE PERMITTED TO DRAW DOWN STOCKS WHICH THEY HOLD IN EXCESS OF THE 90-DAY REQUIREMENT AS A SUBSTITUTE FOR SOME OR ALL OF THEIR REQUIRED DEMAND RESTRAINT).

FINALLY, EACH COUNTRY IS COMMITTED TO TAKE ANY MEASURES NECESSARY TO PERMIT INTERNATIONAL ALLOCATION OF OIL IN ACCORDANCE WITH THE PROVISIONS OF THE INTERNATIONAL ENERGY PROGRAM AGREEMENT. SHOULD THE UNITED STATES HAVE AN ALLOCATION RIGHT, THIS WOULD ENTAIL ARRANGING TO TAKE DELIVERY OF AND DISTRIBUTE INTERNALLY OIL RECEIVED THROUGH THE IEA. SHOULD THE UNITED STATES HAVE AN ALLOCATION OBLIGATION, WE

WOULD BE EXPECTED TO MAKE OIL AVAILABLE FOR DELIVERY TO THOSE COUNTRIES HOLDING ALLOCATION RIGHTS.

OBVIOUSLY, THE OFFICE OF EMERGENCY PREPAREDNESS, WITH ITS RESPONSIBILITY FOR THE STRATEGIC PETROLEUM RESERVE AND OTHER OIL CRISIS RESPONSE MEASURES, PLAYS A VITAL ROLE FROM THE STANDPOINT OF DOMESTIC POLICY. MY ONLY POINT IS THAT IT HAS ALSO PROVIDED ESSENTIAL SUPPORT TO OUR PARTICIPATION IN THE INTERNATIONAL ENERGY AGENCY.

LASTLY, DOE'S OFFICE OF INTERNATIONAL AFFAIRS (IA) HAS PLAYED AN IMPORTANT ROLE IN THE FORMULATION AND EXECUTION OF INTERNATIONAL EMERGENCY PREPAREDNESS POLICY. FIRST, WE HAVE RELIED ON IT FOR OIL MARKET ANALYSIS. IA'S MARKET ANALYSIS OFFICE HAS MAINTAINED CLOSE CONTACTS WITH INDUSTRY, PRIVATE ANALYSTS, TRADERS, AND OTHER AGENCIES. IT HAS ANALYZED SHORT, MEDIUM AND LONG RANGE OIL/ENERGY MARKET TRENDS, CONDUCTED SPECIAL STUDIES ON ISSUES SUCH AS THE ROLE OF THE SPOT MARKET AND THE OUTLOOK FOR NUCLEAR ENERGY, AND DISTRIBUTED DAILY SPOT MARKET AND WEEKLY OIL MARKET REPORTS (BOTH CONTAINING INFORMATION NOT AVAILABLE ELSEWHERE). THIS ANALYSIS IS MORE TIMELY THAN CENTRAL INTELLIGENCE AGENCY STUDIES, AND PROVIDES A USEFUL COMPLEMENT TO THE CIA WORK. WE HAVE NO COMPARABLE CAPABILITY IN THE STATE DEPARTMENT.

SECOND, THE INTERNATIONAL AFFAIRS OFFICE HAS PROVIDED SUPPORT FOR U.S. PARTICIPATION IN THE IEA EMERGENCY SYSTEM, BOTH IN THE FORM OF ANALYSIS AND AS THE COORDINATOR OF INDUSTRY PARTICIPATION IN THE IEA ALLOCATION AND INFORMATION SYSTEM. AS YOU KNOW, MR. CHAIRMAN, WE DEPEND HEAVILY UPON

THE COOPERATION OF OIL COMPANIES TO MAKE THE SHARING SYSTEM FUNCTION EFFECTIVELY. IT IS IN MOST CASES THEY WHO CONTROL THE OIL FLOWING INTO IEA COUNTRIES. IT IS ALSO THEY WHO HAVE THE EXPERTISE IN OIL SUPPLY OPERATIONS NECESSARY TO EXPEDITE INTERNATIONAL TRANSFERS OF OIL. IEA MEMBERS HAVE AGREED THAT A SYSTEM THAT PRESERVES AS MUCH AS POSSIBLE THE FLEXIBILITY OF OIL COMPANIES TO PERFORM IEA-DIRECTED ALLOCATION OF OIL IN THE COURSE OF THEIR OWN OPERATIONS (WITH APPROPRIATE SAFEGUARDS TO PREVENT IMPAIRMENT OF COMPETITION) WILL BE MORE EFFICIENT THAN ONE UNDER WHICH GOVERNMENTS ATTEMPT TO ASSUME DIRECT CONTROL OVER OIL MOVEMENTS THEMSELVES.

UNDER SECTION 252(B) OF THE ENERGY POLICY AND CONSERVATION ACT, THE SECRETARY OF ENERGY HAS BEEN RESPONSIBLE FOR SUPERVISING DEVELOPMENT AND IMPLEMENTATION OF VOLUNTARY AGREEMENTS REQUIRED TO PERMIT PRIVATE U.S. COMPANY PARTICIPATION IN THE IEA OIL ALLOCATION SYSTEM. SUCH A VOLUNTARY AGREEMENT WAS DEVELOPED IN 1976. SOME TWENTY COMPANIES HAVE AGREED TO BE PARTIES TO THE AGREEMENT.

THIS FUNCTION ENTAILS TASKS OF AN ANALYTICAL, LEGAL, AND ADMINISTRATIVE NATURE. AS THE DOE ENTITY RESPONSIBLE FOR IT, THE INTERNATIONAL AFFAIRS OFFICE (SUPPORTED BY THE OFFICE OF THE GENERAL COUNSEL) HAS ASSURED THAT THE REQUIREMENTS FOR OIL COMPANY PARTICIPATION IN THE IEA ARE MET. THESE HAVE INCLUDED CONTRACTING FOR TRANSCRIPTION OF IEA INDUSTRY ADVISORY MEETINGS, DRAFTING AND COORDINATION WITH OTHER AGENCIES (STATE, JUSTICE, FTC,) OF ANTITRUST DEFENSE CLEARANCES FOR OIL COMPANY PARTICIPATION IN SPECIFIC

IEA ACTIVITIES, PROCESSING AND DISTRIBUTION OF TRANSCRIPTS, DRAFTING AND UPDATING OF A PLAN OF ACTION IMPLEMENTING THE VOLUNTARY AGREEMENT, AND COORDINATION OF NUMEROUS ADMINISTRATIVE DETAILS AND POLICY MATTERS WITH THE OIL COMPANIES.

PARALLEL TO ITS RESPONSIBILITIES RELATING TO THE OPERATION OF THE IEA EMERGENCY SYSTEM, IA HAS PLAYED A LEADERSHIP ROLE IN THE CONTINUING EFFORTS OF THE NORTH ATLANTIC TREATY ORGANIZATION TO DEVELOP CONTINGENCY PLANS FOR ALLIED OIL SUPPLY IN WARTIME. IA HAS HEADED THE U.S. DELEGATION TO MEETINGS OF THE NATO PETROLEUM PLANNING COMMITTEE, HAS BEEN RESPONSIBLE FOR ENSURING THAT THE UNITED STATES FULFILLS ITS OBLIGATIONS REGARDING THE OPERATION OF THE NATO WARTIME OIL ORGANIZATION, AND HAS SERVED AS THE POINT OF CONTACT WITH U.S. OIL COMPANIES REGARDING THEIR PARTICIPATION IN NATO ACTIVITIES.

THUS FAR, I HAVE FOCUSSED ON DOE'S ROLE IN INTERNATIONAL OIL CRISIS CONTINGENCY PLANNING. I SHOULD ALSO PROVIDE A LITTLE MORE DETAIL ON DOE'S ROLE IN THE FORMULATION OF BROADER INTERNATIONAL ENERGY POLICY, INCLUDING NUCLEAR NONPROLIFERATION POLICY AND ENERGY RESEARCH AND DEVELOPMENT COOPERATION. FIRST, THE ENERGY INFORMATION ADMINISTRATION PREPARES A NUMBER OF REPORTS ON U.S. ENERGY TRENDS FOR THE IEA. SECOND, WE HAVE SHARED WITH IA RESPONSIBILITY FOR NON-EMERGENCY ENERGY POLICY WORK IN THE IEA AND AT THE ANNUAL ECONOMIC SUMMITS. RECENTLY, WE HAVE BEEN SEEKING INTERNATIONAL COOPERATION BOTH IN AND OUTSIDE OF THE IEA ON ISSUES SUCH AS INCREASING COAL UTILIZATION AND TRADE, ENHANCING THE EFFICIENCY OF ENERGY USE THROUGH ADOPTION OF MARKET-BASED ENERGY PRICING POLICIES, AND POTENTIAL PROBLEMS RAISED BY GROWING RELIANCE ON IMPORTED NATURAL GAS. WHILE WE HAVE DEVELOPED SUBSTANTIAL EXPERTISE ON THESE MATTERS IN THE STATE DEPARTMENT, GIVEN OUR LIMITED STAFF, WE HAVE RELIED HEAVILY ON IA TO SHARE THE BURDEN OF THIS WORK.

IN THE AREA OF INTERNATIONAL ENERGY RD&D COOPERATION, IA HAS COORDINATED THE WIDE RANGE OF INTERNATIONAL ACTIVITIES CARRIED OUT BY DOE PROGRAM OFFICES AND INVOLVING MORE THAN 100 BILATERAL AND MULTILATERAL ENERGY TECHNOLOGY AGREEMENTS. IN THE NUCLEAR FIELD, IA HAS BROUGHT VALUABLE TECHNOLOGICAL EXPERTISE RELATED TO NUCLEAR FUEL CYCLE FACILITIES TO THE STATE DEPARTMENT'S POLICY DEVELOPMENT EFFORTS IN THE AREAS OF NUCLEAR TECHNOLOGY, NONPROLIFERATION AND SAFEGUARDS.

IN SUMMARY, MR. CHAIRMAN, WE ATTACH HIGH IMPORTANCE TO A BROAD RANGE OF THE FUNCTIONS PERFORMED TO DATE BY DOE'S ENERGY INFORMATION ADMINISTRATION AND OFFICES OF EMERGENCY PREPAREDNESS AND INTERNATIONAL AFFAIRS. OF COURSE, AS WITH ANY BUREAUCRATIC FUNCTION, THE ADMINISTRATIVE ORGANIZATION OF THESE FUNCTIONS IS ALWAYS SUBJECT TO REVIEW AND IMPROVEMENT AS NEEDS AND POLICIES CHANGE. THE ADMINISTRATION'S PROPOSAL FOR REORGANIZING ENERGY FUNCTIONS WITHIN THE EXECUTIVE BRANCH OFFERS THE PROSPECT OF IMPROVED POLICY-MAKING AND BUDGETARY SAVINGS. AT THE SAME TIME, THE ADMINISTRATION IS COMMITTED TO MAINTAINING SOUND INTERNATIONAL ENERGY POLICIES AND TO FULFILLING U.S. OBLIGATIONS TO THE INTERNATIONAL ENERGY AGENCY. IN THIS REGARD, WE WILL ASSURE THAT IN THE PLANNED REORGANIZATION OF FEDERAL ENERGY FUNCTIONS, ADEQUATE RESOURCES ARE MADE AVAILABLE FOR THE PERFORMANCE OF THE FUNCTIONS WHICH I HAVE DISCUSSED TODAY.

I WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

THANK YOU, MR. CHAIRMAN.

DOE/EP-0027 **U.S. Department of Energy** July 1981

Assistant Secretary for
Environmental Protection, Safety,
and Emergency Preparedness
Washington, D.C. 20585

# DOMESTIC AND INTERNATIONAL ENERGY EMERGENCY PREPAREDNESS

## I. INTRODUCTION

This Department of Energy report contains an analysis of domestic and international energy emergency preparedness issues. It responds to questions raised by members of the Senate Energy and Natural Resources Committee and others. It represents the efforts of an interagency task force and reflects Administration policy positions where specific statements are made to that effect.

## II. WORLD OIL MARKET TRENDS, INTERRUPTION THREATS, IMPACTS

### A. General Market Trends

The decade of the eighties, unlike the seventies, is starting with a common understanding by officials of major oil importing nations that oil is expensive and less than a reliable source of energy. The oil embargo of 1973/74, fluctuations in supplies during 1979 resulting from the Iranian upheaval, continuing concerns about the stability in the Middle East and the 1100 percent price increase for oil since 1970 have resulted in fundamental changes in the production and use of oil throughout the world.

A significant trend away from oil reliance has begun to emerge. World oil production peaked in 1979 at 62.4 million barrels per day (MB/D), and declined to 59.5 MB/D in 1980 (see Table 1). Capital investment in alternative fuels and more energy efficient equipment and buildings has been substantial. By 1990, assuming recent trends continue, U.S. imports could decline to as low as 2 MB/D, (DOE estimates in the National Energy Policy Plan range from 2 to 7 MB/D) and imports of other member countries of the International Energy Agency (IEA) could decline as well, reducing reliance on Middle East oil. It is also significant that non-OPEC oil producers have increased their share of the oil export market.---In 1973, OPEC producers accounted for 56% of global production. By 1980, this decreased to 45% and is expected to decline further.

Throughout the 1980s, however, considerable reliance on Middle East oil will continue. Any substantial interruption in oil supply will have dramatic and major adverse impacts on importing nations, including the United States.

### B. Market Structure

A number of structural changes have occurred in the production, refining and distribution of petroleum. The major international oil firms have less control over production rates and first sales of crude than in the early 1970s. These functions are now largely controlled by producing nations. Also, government to government transactions for oil have substantially increased.

However, there continues to be flexibility in the crude market as well as in refining and product distribution once the crude leaves the exporting nations. The degree of flexibility is not known but one has only to observe the 1979 market adjustments that were made to recognize what can be accomplished. Significant amounts of crude and products were and continue to be traded on the spot markets. In sum, while the very flexible arrangements that existed in the early 1970s are now restricted, considerable capacity remains to adjust to rapid changes in oil production levels. This is especially so when ample stocks are available in consuming countries.

TABLE 1

WORLD CRUDE OIL PRODUCTION TRENDS
(million barrels per day)

| | 1973 | 1977 | 1979 | 1980 |
|---|---|---|---|---|
| World Total | 55.8 | 59.6 | 62.4 | 59.5 |
| Communist | 10.0 | 13.1 | 14.0 | 14.2 |
| Non-Communist | 45.8 | 46.6 | 48.4 | 45.2 |
| - OPEC | 31.0 | 31.2 | 30.9 | 26.9 |
| - Non OPEC | 14.8 | 15.4 | 17.5 | 18.3 |
| Middle East | 21.2 | 22.2 | 21.4 | 18.4 |

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Sources: Department of Energy, "Monthly Energy Review," April 1981
Central Intelligence Agency, "International Energy Statistical Review".

C. Petroleum Supply Interruption Threats

In 1980, 41% of free world oil production came from Middle Eastern States surrounding the Persian Gulf. Nearly all of this 18 million barrels per day of crude oil passes through the Straits of Hormuz. This critical reliance on highly concentrated production and transportation systems poses a substantial threat of a severe supply interruption for some duration.

Since 1973 three relatively small interruptions have occurred. The first in 1973 resulted from a political decision by Arab OPEC nations to reduce oil production and exports to the United States. Their motivation was the Arab-Israeli conflict. A second interruption occurred in 1978/79 as a result of social turmoil in Iran resulting in sharply curtailed production levels and significant price increases. The third was the Iraq-Iran war which began in September 1980. In the first two cases world oil prices rose substantially, certain producing nations increased production, and consuming nations reduced consumption in response to higher prices. The Iraq-Iran war had little effect on the market because oil consumption was already declining, stocks that were at record levels were drawn upon, and other producers again increased production.

Petroleum supply interruptions can result from:

- political decisions by producers to sharply reduce production,
- internal upheavals within producing nations,
- external intervention by outside powers,
- natural disasters.

The likelihood that relatively minor interruptions will occur seems high based on the events of the 1970s. While they could have significant adverse effects, the ability of importing nations to withstand such events by relying on markets, not government allocation, and by assuring that disincentives to private sector stocks are removed is relatively good. The likelihood of more severe interruptions (deeper and/or longer) is low, but the adverse effects would be substantial as discussed in subsequent sections of this report. Importing countries must be adequately prepared for such events.

## D. Impacts on IEA Member Countries

For any supply interruption the potential adverse impacts on importing nations are similar:

- higher oil prices,
- loss of wealth to the oil exporting nations,
- temporarily reduced economic activity,
- pressure on financial markets and trade.

Major importing nations such as the U.S., Japan, Germany, Italy and others differ in degree of reliance on imported oil. Shown below, based on 1979 data, are country-by-country data on oil import reliance as a proportion of total energy use.

TABLE 2

IEA OIL IMPORT RELIANCE, 1979

| Country | Oil Imports (MB/D) | Total Energy Consumption (MB/D) | Imports as % of Total Energy Consumption |
|---|---|---|---|
| U.S. | 8.2 | 37.1 | 22% |
| Germany | 2.9 | 5.6 | 52% |
| Japan | 5.4 | 7.7 | 71% |
| Italy | 2.0 | 3.0 | 67% |
| United Kingdom | 0.4 | 4.6 | 8% |
| Canada | 0.2 | 4.7 | 4% |
| Other IEA | 5.4 | 10.0 | 54% |
| Total | 24.5 | 72.7 | 34% |

The Emergency Sharing System of the Agreement on an International Energy Program (IEP) can be activated for oil supply shortfalls exceeding 7% of IEA normal consumption. In the absence of activation of the system, the burden of oil supply disruptions would be distributed by market forces and reflected in the world oil price. The IEP sharing system allocates available oil among member countries. This effectively limits each member country's net oil imports. For supply losses of 12% or greater, 10% of the supply loss is distributed in proportion to each member's oil consumption; the remaining supply loss is distributed among IEA members in proportion to their net oil imports during a specified base period. The IEP distribution of oil is therefore increasingly weighted toward a country's import level for severe disruptions.

For supply losses of 12% or greater, each member is obliged under the IEP to reduce oil consumption by 10%. The remaining shortage can be dealt with by any combination of reduced consumption, increased production, increased non-oil imports, or stock drawdown.

Table 3 illustrates the distribution of burden imposed by the IEP sharing system for disruptions ranging from 12% to 40% of IEA base period consumption (3.5 to 14 MB/D). Although changes in base periods affect the calculation, the relative position of the members is more stable.

In a disruption of 20% of IEA oil consumption, the U.S. would lose 7% of total energy consumption while Japan would lose 17% of its total energy consumption. For a very severe disruption (26% of IEA consumption) the U.S. loss rises to 9%, while the Japanese loss would be 24%.

This analysis shows the IEA member countries:

- have differing degrees of vulnerability, reflecting oil import dependency and the nature of specific disruptions, and
- vary as to the level of protection needed to ensure their ability to withstand a severe supply interruption under the terms of the IEP emergency sharing agreement.

The link between the energy vulnerability of IEA members and their political and security vulnerability is direct and inescapable. Oil has proved to be a powerful instrument of political pressure. Vulnerability to such pressure could cause allies to withhold support for U.S. diplomacy. It could also stimulate subtle attempts to curry favor with oil exporting countries, which could weaken cooperation in other policy areas. The IEP oil sharing agreement helps other oil vulnerable nations resist these political pressures.

## TABLE 3

## RELATED DISTRIBUTION OF IMPORT LOSS UNDER THE IEP SHARING FORMULA

| IEA Shortfall Depth | Country | Import Loss as a Fraction of Base Period Oil Imports | Import Loss as a Fraction of Base Period Oil Consumption | Import Loss as a Fractio of Base Period Total Energy Use |
|---|---|---|---|---|
| 4.2 MB/D | USA | 28% | 11% | 5% |
| (12% Consumption) | West Germany | 13% | 13% | 7% |
| | Japan | 14% | 13% | 9% |
| 7 MB/D | USA | 42% | 17% | 7% |
| (20% Consumption) | West Germany | 27% | 27% | 13% |
| | Japan | 27% | 27% | 17% |
| 9 MB/D | USA | 51% | 21% | 9% |
| (26% Consumption) | West Germany | 37% | 37% | 18% |
| | Japan | 37% | 36% | 24% |
| 14 MB/D | USA | 75% | 31% | 13% |
| (40% Consumption) | West Germany | 61% | 61% | 29% |
| | Japan | 61% | 59% | 39% |

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Assumes full compliance with IEP sharing system. Base period data for 1980. The burden is the amount which each member must either forego or make up by stockdraw and increased production or increased non-oil imports.

## III. DOMESTIC PREPAREDNESS - SEVERE INTERRUPTIONS

### A. Background

The economic losses inflicted by a major disruption in oil supplies are due to three main factors: (1) the increase in oil prices and reduction in oil supplies raise production costs and reduce productive capacity, (2) the U.S. must pay more to foreign producers for oil imports, which reduces national income, and (3) aggregate demand declines because of the economic uncertainty created by the disruption and because of the rapid wealth transfer from consuming nations to foreign producers. These economic losses may also be exacerbated by institutional rigidities in wages and prices and inappropriate government policies.

The resulting losses in output, employment and income and the associated hardships cannot be eliminated either by emergency response plans or by government subsidies for synthetic fuels, solar energy or other substitutes for imported oil. This stems from the fact that oil, whether imported or domestically produced, is a major factor in our economy and any large reduction in supply must ultimately translate into a reduction in output. Moreover, even if substitute fuels are available to some degree, a large, sharp increase in oil prices cannot be assimilated in the short run without substantial economic impacts. Even if oil imports were completely eliminated, major disruptions in world oil markets would be telegraphed to the U.S. economy through increases in domestic oil prices and a loss in exports to Japan, Western Europe and other oil-import-dependent trading partners whose economies would be damaged. Emergency response plans are important and can help in the adjustment process, but the main problem is the limited flexibility of any industrialized economy to adjust to sharp increases in the price of so basic a commodity as oil.

### B. Petroleum Stocks

Since the basic problem is the inability of the economy to adjust rapidly without substantial losses, the development of adequate levels of petroleum stocks that can be drawn down in an emergency is one of the most direct and effective solutions to the problem because it reduces the size of the adjustment required. Use of both private and government-owned stocks are effective in reducing shortfalls in petroleum supplies and the associated economic losses and national security threats. U.S. oil stocks are presently at an all-time high level. Combined private and government stocks, as measured by criteria of the International Energy Agency, now total 243 days of imports, considerably more than held by any other major importing country.

The Strategic Petroleum Reserve (SPR) as of July 1, 1981, contained about 160 million barrels, and approximately 40 million barrels are expected to be added by the end of this fiscal year. With 200 million barrels in the SPR and the large volume of private stocks, the U.S. will have very substantial protection against major supply disruptions. The Administration is committed to increasing this protection as rapidly as feasible and will press ahead with capacity development and oil acquisition for the 750 million barrel reserve.

Government policy can also be effective by reducing disincentives to private oil stockpiling and other forms of self-insurance and by reducing institutional barriers to fuel switching, power wheeling and other adjustment mechanisms that can increase the flexibility and resiliency of U.S. productive capacity. Petroleum price controls and allocation, whether actually in place or held in standby status, are the largest and most pervasive disincentive to self-insurance by the private sector. Oil companies, distributors, and end-users will not develop adequate stocks or adequately diversify sources of supply if they expect the government to preempt inventory profits on those stocks by price controls and to ensure the prepared and the unprepared alike a "fair share" of petroleum supplies at a price substantially lower than can be obtained on the spot market.

## C. Emergency Response Options

In addition to ensuring that private and SPR stocks are adequate and that barriers to economic adjustment are minimized, an effective strategy must also establish what actions the government will or will not take during a petroleum supply disruption. There are basically two options: the kind of price controls and allocation strategy relied upon during the past eight years and a strategy of basic reliance on the market. 1/ In addition, there are two suboptions which have received considerable attention in conjunction with the market reliance strategy: a fee on oil imports and a mechanism, such as a tax cut and increase in transfer payments and grants to States, to redistribute Federal tax revenues to consumers and the States. These four options are examined below.

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1/ Basic reliance on the market does not preclude limited Government involvement in the event of a major disruption. The President has numerous authorities available for appropriate actions in the absence of the Emergency Petroleum Allocation Act. See footnote on page 11.

## Price Controls and Allocation

Strategy Description. Under this strategy, domestic oil prices are held below market levels and supplies are allocated according to government priorities and preferences by regulation. This strategy attempts to reduce transfers from consumers to domestic oil producers and distributors by holding down oil prices. [1] Oil products are allocated according to historical use with certain priority activities first in line. The strategy can only prevent or reduce the domestic part of the wealth transfer--foreign oil prices are beyond direct U.S. government control. To prevent domestic producers from receiving any wealth transfer, the government controls real domestic crude oil prices at predisruption levels. Domestic crude oil price controls are not sufficient to prohibit refiners and distributors from pricing their products high enough to clear the market. To avoid this, refiners and downstream distributors must be prohibited from charging more than a government-dictated mark-up over average crude oil costs.

However, since all refiners do not have the same access to price-controlled "low cost" domestic oil, further regulations are needed to avoid the politically untenable situation of some consumers having to pay greatly higher prices for gasoline and other products than other consumers. The remedy used in the past was a system of cash payments among refiners, whereby those refiners with greater than average access to price-controlled oil paid more import-dependent refiners an amount calculated to approximately equalize average refiner acquisition cost. In effect, this system, known as the entitlements system, taxed the use of domestic oil and subsidized the importation of foreign oil.

During normal times, suppliers generally allocate petroleum to those purchasers willing to pay the highest price. Price controls limit the price that can be legally charged, thus other allocation procedures must be found. Allocation procedures may also be necessary because incentives for anti-competitive practices may exist. With the selling price determined by average cost and with margins frozen, integrated refiners could have an incentive to supply their own retail outlets preferentially during disruptions, at the expense of independent retailers. Independent retailers would demand that the government remedy the situation. The remedy used in the past has been to freeze the relationship between suppliers and purchasers and to require suppliers to allocate supplies based on historical usage. Suppliers were required to sell an equal fraction of base period sales to all their historical non-priority customers.

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[1] The National Petroleum Council (Emergency Preparedness for Interruption of Petroleum Imports, April 1981) has proposed no price controls at the wellhead but controls on refiners' and distributors' margins. This approach, at least in theory, would eliminate most of the wealth transfer to distributors and refiners but allow the entire transfer to producers. Thus domestic oil prices would not be dampened to the same extent as under "full controls," but the effects on allocation efficiency and the need for complex regulation and a large, costly bureaucracy would be about the same.

These regulations tend to insulate existing purchasers from competitive pressures and make it difficult for more efficient refiners and distributors to expand their market shares. The government would presumably again establish a detailed system of priority categories whose members would be entitled to a larger fraction of historical use than other users. In the past this list has included farmers, fishermen, homeowners, parcel delivery, military, newspapers, and many others.

There is one final layer of regulations that would be required to address a problem associated with the first several months of the disruption: gasoline lines. In a major supply disruption, prices will begin to rise very quickly. If price controls are imposed before U.S. and world prices reach levels that would reduce oil demand to the new levels of supply, lines will form at retail gasoline, diesel, and general aviation fuel outlets. This condition would persist until U.S. refiners could identify, bid for, and obtain new crude oil supplies on world markets. To deal with the lines at the retail gasoline outlets, the regulatory strategy calls for imposition of gasoline rationing, or at least an attempt to do so.

Evaluation. Because oil prices would be lower in the domestic market than in the world market, U.S. demand would be higher, encouraging imports and adding some upward pressure on world oil prices. The somewhat higher world prices would increase the size of the economic rents paid to foreign oil producers, that is, foreign producers would be subsidized at the expense of domestic producers. The effects of these higher OPEC rents may offset the effect of lower oil prices in the U.S. economy.

More important, oil supplies would necessarily have to be allocated on the basis of data that is always out of date. Allocation systems cannot accurately reflect recent growth or decline in demand among areas or among firms and individuals, and they cannot anticipate nor accurately adjust for shifts in demand caused by uncertainty about supplies or the differential impacts of higher oil prices. Thus some areas and users are allocated larger supplies than they would have demanded at a competitive price while other areas and users receive less than they would have demanded. In past applications of gasoline allocation, for example, supplies have generally been ample in most rural areas and on interstate highways, but long queues were created in many cities. It is safe to assume that these shortcomings would increase substantially in more major interruptions.

Such misallocations and the price controls seriously impact output and employment. They increase production costs, as shorted producers attempt to substitute more expensive inputs for oil they would have gladly paid a higher price for. Oil is used disproportionately for less valuable uses because higher valued uses are not allowed to compete for more than their "fair share." Productivity and consumer welfare are also damaged by the long lines that form at gas stations because demand exceeds supply at the controlled price and because the gasoline is allocated on the basis of where it was needed a year ago rather than where it is needed now. For a major disruption of 10 MB/D in OPEC supplies (about 2.7 MB/D in U.S. imports) the time spent in gasoline lines is estimated to cost U.S. consumers some $2-3 billion just during the 3-4 months it would take to implement a gasoline rationing plan. The allocation system would also intensify the shortage for the average user because of off-the-top allocations to State set-asides and to various categories of legally privileged users who face no incentive to conserve, a wide-open opportunity to hoard, and an artificially low price to boot. In 1979 certain "priority" users were entitled to 100% of their "current needs," which was defined at whatever they said it was.

In addition to these impacts on producers and consumers, price controls and allocation would require huge bureaucracies at both the Federal and State levels. It is estimated that a system of price controls, allocation and gasoline rationing would cost $2-3 billion per year to administer and would cost the private sector an additional $2-3 billion for compliance activities. The hundreds of pages of complex regulations required would be subject to various interpretations and often legal challenges. Political influence and political expediency would play a major role in the operation of the system. Once established, political constituencies would develop quickly, making it difficult to dismantle the system after the emergency is over, as has been amply demonstrated.

## Market Reliance

Strategy Description. This strategy relies on the market to price and allocate petroleum supplies domestically. 1/ It is based on the principle that markets which are most efficient and effective in allocating resources during "normal" times will also serve as the best, though perhaps imperfect, allocator during supply disruptions, even severe disruptions. It also recognizes that major supply disruptions not only reduce the supply of petroleum but they also create huge uncertainties and major shifts in demand. Thus it is especially important during major supply disruptions to use every drop of oil as efficiently as possible, to encourage conservation and additional oil production, and to respond quickly to the shifting patterns of demand.

Evaluation. Oil prices in the world market will be somewhat lower under a market strategy compared with price controls because there would be no subsidy provided for imports through an entitlements program. Domestic petroleum prices, however, will be higher under a market strategy. The Department of Energy estimates that world crude prices during a major disruption of 9.4 MB/D would increase from $38/B (1981 first quarter base level) to a peak of $119/B in the very short run, and then perhaps subside somewhat as substitution possibilities become more available. This assumes that the IEP emergency sharing system is in effect. Gasoline and distillate prices could reach peaks of somewhat more than $3.00 per gallon in the U.S. market, approximately $1.00-$1.40 (50-70 percent) higher than under price controls. On the other hand, lines would be eliminated under a market strategy, except possibly for occasional, brief shortages which would be quickly eliminated by supplies responding to the higher prices.

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1/ Authority will be available under the Defense Production Act to allocate oil supplies for national defense purposes should that become necessary during a major disruption. Other authorities also exist that could be used to restrict demand, encourage additional domestic oil production, encourage fuel switching, increase fuel-use efficiency, and encourage private stock drawdown by reducing the tax impact of such action. These authorities include: Sections 106 and 202 of the Energy Policy and Conservation Act (EPCA), Title II of the Emergency Energy Conservation Act of 1979, Sections 202(c) and (d) of the Federal Power Act, Section 404 of the Powerplant and Industrial Fuel Use Act, the waiver authority under Section 110(f) of the Clean Air Act, and Section 473 of the Internal Revenue Code.

The overall rate of inflation during a disruption will be determined to a large extent by monetary policy. The Administration is committed to a policy of steady money growth to reduce inflation. If monetary policy is used in this way to maintain overall price stability in the face of an oil shock, oil prices will grow relatively more rapidly and other prices relatively less rapidly under a market strategy than under controls and allocation, but the overall rate of inflation will be roughly similar under the two strategies. In fact, with monetary policy maintaining a steady growth in nominal income, inflation will be slightly less under the market strategy compared to controls and allocation since output and employment will probably be somewhat higher.

Conservation, fuel switching, and domestic oil production will be maximized as millions of individuals and firms respond to rising oil prices. These decisions can best be made on a decentralized basis at the grass roots level by the millions of consumers and producers who are most knowledgeable about their own circumstances and the alternatives available.

Individual decisions by producers and distributors in response to changing relative prices will also provide the most rapid and effective response to any shortages that may develop in a region due to a disproportionate loss in supplies by refiners that serve the region or if such refiners give up oil under the IEP sharing agreement. While existing contracts between suppliers and their customers may cause some stickiness in the responsiveness of the market, higher prices in one region will quickly bid away crude and product from other regions to balance the burden. These adjustments will be made more rapidly and more efficiently in response to price signals than under price controls and allocation, where adjustments in regional supplies from outdated historical patterns would have to await decisions by government bureaucrats on each case or class of cases, using information that is inevitably incomplete and outmoded in comparison to what is available to the market on a day-to-day basis.

Due to its reliance on a decentralized flexible response, the market strategy will be better able to deal with uncertainty than will a regulatory approach. The length and depth of a disruption will not be known at the outset. Nor will the disruption be of constant, uniform size. This strategy accommodates uncertainty by relying on many decision-makers and the ability to respond quickly. The less concentrated the decisionmaking authorities, the greater the diversity of response, and the less the chance that a central decisionmaker--who at the outset of past emergencies has consistently overestimated the severity of oil supply disruptions--will cause widespread damage by decisions that later prove to be wrong or substantially off the mark.

A decentralized response strategy that relies on prices also provides strong signals for the private sector to prepare for disruptions in advance and to take actions during the disruption that reduce the damage. Refiners, distributors, and end-users--from farmers to rent-a-car firms--would have greater incentives to build oil stockpiles, if they knew that prices will be allowed to rise and the government will not allocate supplies during disruptions. Opportunities for legitimate, socially-beneficial gain provide these incentives. Similarly, utilities and industrial oil users would in many cases find it in their self-interest to install multi-fuel capacity for use during periods of high oil costs.

Import Fee

Strategy Description. A fee on imported oil has been proposed by a number of people as a means to reduce payments to OPEC and the adverse effects on the U.S. economy. Authority exists under Section 232 (b) of the Trade Expansion Act to impose such a fee during major disruptions in oil supplies.

As oil prices rise during supply disruptions, the United States and other oil importing nations will pay higher prices for fewer barrels of oil. If the United States, perhaps in concert with its oil-importing allies, can slow the rise of oil prices and can reduce their ultimate level by an import fee, a portion of this wealth loss may be avoided. This assumes that a fee on imports, by reducing demand for imports, will reduce world oil prices. Price may not fall if oil producers cut back production by the amount of the demand reduction.

Evaluation. A fee would raise the price of both imported and domestic oil above world market levels, which may induce some additonal production in the U.S. and further reduce demand. If a fee prevents world oil prices from rising as high as they would have otherwise, the United States (and all other oil-importing nations) would pay less for oil imports, even though U.S. consumers would be paying higher prices at the pump, the difference being the fee.

This additional tax on the American consumer would be difficult to explain and support during a period when oil and other prices are already rising rapidly.,

The effects on output and employment of an oil import fee are difficult to forecast. The positive effect of reduced payments to OPEC may be offset by the higher domestic prices for oil and the lower quantities of oil imported. There is also the uncertainty about whether some foreign oil producers will cut back production to try to offset the dampening effect of a fee on world oil prices. This is particularly likely if the disruption is the result of a politically motivated embargo.

A fee would be more effective and more beneficial to the U.S. if other importing countries also imposed fees. However, other members of the IEA have shown little enthusiasm for fee strategies, possibly because most European nations already tax motor gasoline heavily. Discussions have centered on levels of imports with the mechanisms for achieving these targets left to each nation's discretion. Even if the IEA members were to agree in principle on a coordinated fee, it would be very difficult to reach agreement on the size of the fee, on the timing and coordination of implementation, and on how the fee would relate to existing agreements on demand restraint and oil sharing under the International Energy Program (IEP).

## Emergency Tax Cut and Increase in Transfer Payments

Regardless of which of these emergency response strategies is followed, a major disruption in oil supplies is likely to cause a temporary increase in domestic oil prices. Such disturbances should not be countered with expansionary quick-fix monetary and fiscal policy measures. Instead, the Administration's commitment to growth oriented tax and budget policies, lower inflation and a strong dollar should be renewed and intensified. In particular, the program of monetary restraint should be reaffirmed. Also, emergency tax rate reductions to enhance output in the energy and non-energy sectors should be implemented and financed out of revenue increases generated through higher oil prices. In these circumstances price disturbances and output disturbances will be short-lived and localized. A general acceleration of inflation and prolonged recessions can be avoided.

One approach is an emergency tax reduction and increase in transfer payments which could be implemented during major oil supply disruptions. The tax reduction and increased transfer payments could be handled through the existing income tax and income transfer programs, such as Social Security, Supplemental Security Income, and AFDC. A portion of the funds could also be distributed to the State governors for redistribution to meet special needs in their States. By using these well established systems it is estimated that a tax cut and income transfer approach could be implemented more quickly and at substantially lower cost than a system of price controls, allocation and rationing. This approach has another advantage over price controls in that the latter provide assistance in direct proportion to the volume of oil products used (big users receive a larger subsidy than small users), which not only discourages conservation but may also be questionable on equity grounds.

Preliminary analysis indicates that for an emergency tax reduction and transfer payment system to be successful, it must avoid the kind of detailed targeting proposed by the Carter Administration in its gasoline rationing plan. An overly complicated system that attempts to provide precise equity for every area and category of consumer can neither be implemented quickly at the onset of a disruption nor be administered soundly and fairly.

Consideration has been given to providing preauthorization for an emergency tax reduction and transfer payment system and to require the President to develop a standby system for approval by the Congress. Our preliminary analysis indicates that further analysis and contingency planning on this subject should continue. Questions need to be resolved about the feasibility of designing and enacting standby authority in advance for a system that would be workable and suitable for use during circumstances which cannot be accurately forecasted and which may not occur until some time in the future.

## D. Conclusions

The Administration is convinced that the welfare and interests of the American people will be best served if the government follows a policy of making sure that the nation has adequate insurance in advance to ameliorate the effects of major oil suppy disruptions and, in the event of a disruption, of allowing the market to do the job it does best--allocating scarce resources efficiently and effectively among competing demands. For this reason the Administration is opposed to enactment of any petroleum allocation or price control authority, including extension of the Emergency Petroleum Allocation Act. It is essential that we proceed with the development of the SPR as rapidly as feasible and also ensure that the private sector has proper incentives for self-insurance and that institutional barriers to endurance and flexibility in the economy are removed. No other action could have a more salutary effect on the preparedness and endurance capability of producers and consumers alike than to guarantee that domestic price controls and allocation of oil for civilian purposes will never again be imposed.

Adequate levels of private and government stocks and reliance on the market will ensure that the adverse effects of oil supply disruptions are minimized and that the various groups of producers and consumers and different regions of the country will be treated equitably. An import fee has no compelling virtues. It involves government interference in private sector productive decisions and hence could easily introduce undesirable and costly distortions. The possibility of developing a system of emergency tax rate cuts and income transfers should be analyzed further, and questions should be resolved about preauthorization of such a system. Finally, to insure a strong dollar and prevent a new outbreak of general inflation, oil supply disruptions must be greeted with a firm and non-accommodative monetary response.

## IV. INTERNATIONAL PREPAREDNESS - SEVERE INTERRUPTIONS

### A. Background

In the event of a severe petroleum supply disruption, oil importing nations have several alternatives for response.

- Stockdraw to increase supplies available for consumption during a disruption.
- Surge Production, including increased domestic production of any energy source.
- Increased Imports of non-oil energy supplies.
- Foregone Consumption of petroleum products.

Each of these options involves economic costs.

The major oil importing nations have agreed, in the Agreement on an International Energy Program (IEP), to take certain measures in the event of a major international petroleum disruption to distribute available oil supplies among IEA members. These measures include demand restraint, stock drawdown, and the international sharing of oil.

The IEP sharing system allocates available oil among member countries. This effectively limits each country's net oil imports. A country's imports are effectively limited to its calculated supply right minus its current production.

More specifically, the IEP emergency sharing system may be activated when the IEA group of twenty-one member countries as a whole ("general trigger") or an individual IEA country ("selective trigger") experiences a 7% or greater shortfall of available petroleum supplies, measured against final oil consumption during a specified base period (the previous four quarters, with a one quarter lag).

The IEP provides that in the case of a general trigger, the participating countries will distribute oil supplies available to them on the basis of "supply rights", derived in accordance with a prescribed sharing formula. A country's supply right is equal to its final oil consumption during the base period (the previous four quarters with a one quarter lag), minus a demand restraint obligation (7% of base period consumption if the shortfall is between 7 and 12%, and 10% of consumption, for shortfalls of 12% or greater), and minus a share of the remaining shortfall determined through an emergency stock drawdown calculation, which is based on a country's share of net oil imports in the previous calendar year. To the extent that oil supplies which are destined for an IEA country exceed or fall short of that country's allotted share (supply right), oil supplies are allocated through a system of voluntary offers from participating oil companies to insure that the total of oil production and oil imports received by each country is limited to its supply right. This process differs slightly in the event of a "selective trigger" in that only the affected country is expected to reduce its demand and only by 7% with its residual shortfall made up by other member countries on the basis of their respective oil consumption in the base period.

The IEP emergency sharing system can be activated by the IEA Governing Board when the IEA Secretariat finds that the members have incurred or can reasonably be expected to incur a reduction in available oil supplies exceeding 7% of consumption as compared with the base period. However, the IEA Governing

Board may, by special majority, prevent activation. The special majority to block a general trigger requires an affirmative vote by 15 of 20 members and 60% of the "combined" voting weights (the U.S. holds 31% of the combined voting weights). To block a selective trigger, a vote of 17 of 20 voting members is required. 1/

This emergency system is designed to achieve a specified distribution of oil and reduce spot market oil price pressures by limiting each IEA country to a specified share of available supplies. Thus, during severe disruptions, IEA members will act cooperatively to reduce oil price increases below what would occur without cooperative efforts by importers. Collective action can be effective in dealing with the OPEC cartel while assuring the distribution of available quantities of oil among IEA nations according to an agreed formula.

When an oil supply interruption occurs, a passive strategy will result in lower oil consumption and higher oil prices. The high oil prices will cause enormous losses in GNP. The IEA sharing agreement provides a framework for the U.S. to coordinate its actions with similar actions by all other members of the IEA. Collective responses to a major disruption can significantly reduce the GNP losses of an interruption and the cost to the U.S. of preparing for an interruption.

The Administration is committed to the International Energy Program because the IEP provides the basis for reducing unnecessary conflicts among key consuming countries for dealing effectively with disruptions in cartelized world oil markets and therefore for protecting the interests of the American people. An inherent part of this commitment is the need to assure that the IEP emergency system will function as effectively as possible.

The IEP is a program in evolution. Its members have been forthright in recognizing the work which needs to be done to allow it to improve its effectiveness.

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1/ These numbers change slightly if Norway, which has an associate arrangement with the IEA, agrees to participate in sharing prior to such a vote.

## B. U.S. Obligations Under the IEP

Participation in the IEP emergency system imposes a number of obligations on the U.S.:

- Maintenance of emergency oil stocks (and/or standby production capacity or fuel switching capacity) sufficient to sustain oil consumption for 90 days with no net imports as defined by IEP.

- Maintenance of the ability to reduce consumption of oil by 10% or, as an alternative, readiness to drawdown oil stocks in excess of the 90-day commitment sufficient to supply up to 10% of normal consumption.

- Participation in the IEP emergency sharing system by both the U.S. Government and U.S. private firms. This has the effect of limiting net oil imports during a disruption.

## C. Oil Stocks and Demand Restraint

The U.S. currently has in place the necessary statutory authority and government programs to implement its commitments to the IEP.

### Oil Stocks

Oil stocks are the most effective mechanism for mitigating the adverse economic effects of an oil supply disruption. Private U.S. firms have historically held more than the required 90 days of stocks on a gross basis. At present, with the reduced import levels fostered by the 1979-1980 oil price increases, U.S. gross oil stocks stand at 243 days of imports, as displayed in Table 4. The U.S. Government owned SPR, currently holding 27 days, could hold from 107 to 375 days at its 750 million barrel level, depending on actual import levels when fill is completed.

TABLE 4

SUMMARY OF CURRENT AND PLANNED U.S. OIL STOCK POSITION

| | July 1, 1981 Position | | Planned Position (Late Eighties) | |
|---|---|---|---|---|
| | (MB) | (Import Days) 1/ | (MB) | (Import Days) 1/ |
| Private Stocks 2/ | 1300 | 217 | 1000+ | 143+ to 500+ |
| SPR Stocks | 160 | 27 | 750 | 107 to 375 |
| Total Gross Stocks 2/ | 1460 | 243 | 1750+ | 250 + to 875+ |

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1/ Assumes net import level of 6 MB/D currently and 2 to 7 MB/D in the late eighties; actual level for January through May 1981 was 5.3 MB/D. DOE estimates 1990 imports at 2 to 7 MB/D (see NEPP). Totals may not add due to rounding.

2/ Includes only primary stocks.

Although virtually the entire content of the SPR is available for emergency drawdown, the precise usability of private stocks is less certain. A portion of these is physically unavailable for use, such as that volume necessary to fill pipelines and processing facilities. Additional volumes are working inventories at refineries and distribution terminals. Drawdown of these volumes would impose costs in the form of inefficiencies, distorted distribution systems, and spot shortages. Thus the actual endurance represented by the gross private stock levels is certainly less than the total number of days. One estimate that may be optimistic places the minimum required private stock level to protect working inventories at roughly 700 million barrels (based on 1973 NPC analysis, updated for year-end 1980). Past experience with DOE price and allocation controls in effect has shown fuel specific regional problems when U.S. stock levels fall near the 1 billion barrel level. It is important to note that stocks of a particular product and seasonality are important factors in evaluating minimum acceptable levels. Without price and allocation controls in place the distribution system would be more efficient.

In summary, U.S. stocks are well in excess of our IEP obligation at present, and this excess will expand further as the SPR is filled. When the SPR is completely filled, the U.S. expects to hold more than 3 times its obligation to the IEP.

The actual draw rates for private stocks during a severe disruption will depend on market forces, and is unlikely to be smooth throughout a disruption. These illustrative quantities provide only a very rough indicator of the endurance available. Because of the importance of strategic stocks, the U. S. Government is committed to seeking improved stockpile policies for IEA members so as to extend their endurance in the event of a severe disruption.

### Demand Restraint

The demand restraint obligation in the IEP requires a 10% reduction in consumption in the face of a 12% reduction in supplies (7% in a 7% disruption) or, as an alternative, the use of stocks in excess of the 90 import-day requirement to support the specified share of consumption. Market price effects may operate to reach this level of reduction in consumption, the speed of such adjustment varying with the circumstances. Table 5 displays the price increases which would yield a 10% reduction in consumption for various assumptions about short term demand elasticity.

TABLE 5

PRODUCT PRICE INCREASES WHICH YIELD 10% DEMAND REDUCTION FOR VARIOUS CONSTANT DEMAND ELASTICITIES

| Assumed Demand Elasticity | Necessary Price Increase to Yield 10% Demand Reduction |
|---|---|
| -0.50 | 23% |
| -0.20 | 69% |
| -0.15 | 102% |
| -0.10 | 187% |

The economic losses associated with this adjustment can be minimized by relying on the efficiency of the market adjustment mechanisms.

It is entirely possible for the U.S. to meet its demand reduction requirement even if its oil demand is less elastic than other importers. For example, in a 12% IEA supply loss, the U.S. may be able to meet its demand restraint requirement with an aggregate U.S. demand elasticity 82% of IEA demand elasticity.

DOE estimates of market balances during severe disruptions support the possibility that a price adequate to balance global oil markets will yield 10% or greater U.S. consumption reduction, the speed of such adjustment varying with the circumstances.

If demand restraint is not achieved by market price effects, the U.S. has adequate authority, discussed below, to impose import quotas or fees as necessary to reduce consumption. This might occur, for example, if the IEP sharing system substantially depressed market prices or if U.S. firms sought to build up stocks.

Finally, under Article 16 of the IEP, the substantial excess of U.S. stocks over the 90-day IEP requirement could be used to support consumption in excess of the 90% level.

## D. U.S. Participation in the Emergency Sharing System

The IEP provides that when the emergency sharing system is activated, the allocation of oil shall take place as necessary among the member countries. Those countries with actual or projected supplies in excess of their supply rights are to allocate oil to those member countries whose supplies are less than their supply rights.

The emergency sharing system has been designed to achieve this allocation primarily through voluntary oil company actions. Facilitated by the antitrust defense afforded by Section 252 of the EPCA, U.S. companies are expected to make voluntary offers to supply to other IEA countries any oil which the U.S. is obligated to furnish.

The possibility of mandatory government intervention, in the event the voluntary system fails, provides a considerable incentive for U.S. companies to make the sharing system work. Voluntary international oil movements are to be preferred because they are less intrusive, maximize reliance on the market, and avoid having government direct the movement of cargo volumes. They also take advantage of the oil industry's expertise, and its ability to shuffle oil movements smoothly among destinations at the least cost.

The President, if he deems it necessary, may take any one or a number of different actions to foster voluntary compliance or to require mandatory compliance. Some of these include:

- Distribution of oil from the SPR to firms voluntarily diverting oil to IEA member nations.
- Limited domestic allocation of crude oil to such firms as necessary to achieve compliance with IEP obligations.
- Appropriate adjustments for such firms if imports are limited by an oil import quota or fee.
- Mandatory international allocation orders to U.S. firms as necessary to achieve compliance with IEP obligations.

Moreover, because the volume of oil to be allocated from the U.S. to other IEA member nations generally depends on the volume of projected net imports that would result in the U.S. exceeding its supply right, the President could, if he deemed it necessary, take any one or a number of different actions to reduce U.S. oil imports. Some of these include:

- SPR drawdown to depress U.S. import demand.
- Import fees or quotas to reduce U.S. imports.

The Department of Justice has reviewed the available statutory authorities (including the Energy Policy and Conservation Act, the Trade Expansion Act, the Defense Production Act, and the International Emergency Economic Powers Act) and concluded that they are adequate for all of these actions.

The policy of the Administration is to rely on market mechanisms and the voluntary system of allocation under the IEP. The authorities referred to would only be used if the President determines that some government action is needed to foster voluntary compliance by companies in the IEA sharing system or to require mandatory compliance. Such a determination would involve evaluation of the costs and benefits of each option.

The use of the quota authority would yield a limitation on oil supplies in domestic markets and a consequent increase in domestic oil prices over the already elevated level induced by the disruption itself. The result would be an increase in the domestic economic costs of the oil disruption, to the benefit of other oil importers for whom prices would fall reflecting the reduction in effective U.S. demand. Thus the quota action would be designed to preserve the benefits of the IEP allocation system associated with demand reduction, resulting world oil price reduction, and reduced wealth transfers to exporters.

The application of an import fee would yield similar, but more uncertain, results. There would be substantial difficulties associated with determining the appropriate size of such a fee to achieve the precise oil import ceiling specified in the IEP. This difficulty, severe enough in normal markets, would be exacerbated by the complexities of a severely disrupted market. However, the availability of EPCA Section 251 authorities for international allocation orders would enable the U.S. to meet its obligations if the fee were set too low.

The President has the authority to use oil from the SPR to compensate domestic oil companies for oil offered under the IEA system or to generally dampen demand for imports.

DOE plans to develop a contingency plan for a limited crude oil "fair-sharing" system to backstop voluntary offers, for activation should the President deem it necessary to meet our IEP obligations. The aim of this system will be to assure U.S. oil companies that the burden of supplying oil to the IEA sharing system will be shared equitably, if necessary through government ordered transfers of crude oil among them. It is the opinion of the Department of Justice that the President has authority to implement such a fair-sharing system under EPCA Section 251. In our planning for a fair-sharing system, we will be focusing on a very narrow system in order to minimize adverse effects on market decision-making and efficiency.

The decision on whether and when to exercise limited domestic crude oil allocation authority will be made by the President in light of circumstances during the disruptions. However, in considering alternatives the President will also consider the costs which such a system would impose.

Reliance on the market is the most effective approach not only to ensure the most efficient use of available petroleum supplies but also to achieve equitable treatment of the various sectors of the economy and regions of the country. This is true regardless of whether the IEP sharing formula is triggered or not, since there is nothing in the sharing arrangement which would tend to make the regional impact within the U.S. more equitable or less equitable.

## E. Adequacy of IEA Stock Policies

The stock position and stock policies of IEA members vary widely. The least import dependent nations (e.g., the United Kingdom, Canada, and the U.S.) hold very high stocks in comparison to their imports. These nations are prepared to support their economies for extended periods at drawdown rates which would compensate for a large fraction of their oil loss.

Table 6 compares the stock positions of the U.S. and the other major IEA importers, but only part of the stocks shown are in fact usable. Together, the U.S., the FRG, Japan and Italy account for more than 75% of total IEA imports. As can be seen, the U.S. is in a better position to deal with a severe interruption than more heavily import dependent nations.

Because of the importance of strategic stocks, the Administration is committed to seeking improved stockpile policies for IEA members so as to extend their endurance in the event of a severe disruption.

Each IEA member is responsible for financing its 90 import-day stockpile. Approaches to financing vary widely among the members, reflecting their capabilities, the nature and history of government-industry relations, the nature of each member's oil market, stockpile costs, and the extent to which each member chooses to exceed the 90 import-day minimum requirement. A wide array of financing approaches have been adopted usually in combination, including the imposition of minimum stockholding requirements on refiners and marketers, joint government-industry financing, stockpile subsidies, and outright government stockpiling. Joint stockpile financing policies would eliminate the flexibility which each nation requires to deal with its own set of conditions. It is very unlikely that joint financing could be agreed to or would effectively improve the strategic protection afforded by oil stocks, and it might even cause deferral of national decisions to increase protection levels.

TABLE 6

IEA STOCK LEVELS

| | Stock Levels April 1981 (MB) | Actual 1980 Imports | Stock Levels (Import Days at 1980 Rates) |
|---|---|---|---|
| USA | 1460 1/ | 6.3 | 232 |
| FRG | 361 | 2.6 | 137 |
| Japan | 442 | 4.9 | 90 |
| Italy | 163 | 2.0 | 84 |
| Other | 880 | 4.6 | 190 |
| Total IEA | 3305 | 20.4 | 162 |
| IEA without U.S. | 1846 | 14.1 | 131 |

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1/ Includes 160 MB SPR; import data excludes territories.

A priority for the IEA should be to ensure that member countries increase strategic reserves. Some other areas of policy coordination are probably less feasible, and in some cases they are undesirable. For example, it does not appear likely that the IEA could agree on a coordinated import fee that would be acceptable to all members because national conditions vary so dramatically. Moreover, it is not clear that an import tariff would work or that on balance it would be beneficial to the importing country.

## V. INTERNATIONAL PREPAREDNESS-SMALL INTERRUPTIONS

As described in Section II of this report, there is a real risk of interrupted oil markets over the next decade. Their frequency and duration will depend on numerous political and economic developments, most of which are beyond the control of IEA members. Proposals for coordinated IEA government action to attempt to moderate oil price increases in such markets are under consideration within the IEA.

The United States has concluded that reliance on market pricing is the most effective mechanism for achieving the flexibility necessary to deal with uncertainty but will continue consultations with IEA members on ways of fostering international cooperation in dealing with small interruptions.

Table 7 displays the contraction in oil consumption induced by higher oil prices in 1978-1980.

TABLE 7

WORLD OIL MARKET 1978-1980

| | 1978 | 1979 | 1980 |
|---|---|---|---|
| World Oil Production (MB/D) | 60.2 | 62.4 | 59.5 |
| - of which OPEC | 29.8 | 30.9 | 26.9 |
| World Oil Price ($/B) (Year-end FOB) | $13.05 | $29.35 | $36.69 |
| IEA Oil Consumption (MB/D) | 39.0 | 39.2 | 36.1 |
| U.S. Oil Consumption 1/ | 18.8 | 18.5 | 17.0 |

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1/ Excluding territories.

During this period nominal oil prices nearly tripled--a shock roughly equal to the 1973 shock. With few exceptions, the IEA governments allowed the pass through of higher world oil prices in their domestic markets. The U.S. dismantled its price control program January 1981, when President Reagan eliminated the last vestiges of the system which had been in place since 1974.

The result of rising prices was a contraction of 3 MB/D in IEA oil consumption (62% of which was by the U.S.). This contraction in consumption allowed a significant build-up of oil stocks in spite of the 1980 loss in oil production. This combination of market responses proved adequate to prevent the outbreak of the Iran/Iraq war from driving oil prices much higher; actual prices paid for oil subsequently fell over the first half of 1981.

The oil importers are generally somewhat less vulnerable to oil price shocks in the future because of lower oil dependence, and more confident of their ability to adjust to further shocks.

### TABLE 8

### IMPROVEMENT IN U.S. OIL REQUIREMENTS

| | 1973 | 1978 | 1980 |
|---|---|---|---|
| U.S. Oil Consumption (MB/D) | 17.3 | 18.8 | 17.0 |
| U.S. Real GNP (Billions CY 80 dollars) | 2107 | 2413 | 2486 |
| Ratio of GNP to Oil Consumption (Index: 1973 = 100) | 1.00 | 1.05 | 1.20 |

Table 8 displays the improvement in U.S. oil reliance between 1978 and 1980. Through July 10, 1981, U.S. oil consumption is running about 1.3 MB/D below the comparable 1980 period, while economic growth is estimated at approximately 2.4% (real) over the comparable 1980 period. In addition, private oil stocks remain at record high levels.

Had oil consuming countries relied more heavily on price controls or mandated stockdraws in response to the 1979 price increases, they might have been less well prepared for the consequences of the Iran/Iraq war. This experience illustrates the value of market pricing in dealing with the uncertainty which we expect will characterize oil markets for the foreseeable future. There are unavoidable economic costs associated with the adjustment to sudden contractions in oil supplies. The market mechanism is able to achieve the necessary adjustment more efficiently than government intervention.

The IEA has considered various proposals for influencing oil market prices in tight market conditions when the sharing system is not activated. The measures under consideration include: data systems to permit continuous monitoring of the oil market; encouragement of national measures to promote demand restraint, high indigenous energy production and fuel switching; hortatory discouragement of resort to the spot market; stock policy guidance; measures to deal with country supply imbalances; increased emergency oil stock requirements; and improved government-industry relations.

In IEA deliberations on this subject, the United States has strongly emphasized the Administration's belief that high levels of oil reserve stocks and reliance on market forces provide the most effective protection against smaller as well as large disruptions. The U.S. is exploring with other countries what minimum oil stock requirements are desirable. It is not appropriate to develop a system that would commit the United States in advance to a specific course of action in responding to small oil supply interruptions. Rather, should a need arise for cooperative action by IEA nations, measures can be formulated at that time to meet specific needs. Consequently, no antitrust defense for subtrigger oil company actions is being sought.

For these reasons, the Administration supports reliance on the market. The Administration continues to support close consultation with IEA members and would not rule out future actions in the event of an interruption depending on circumstances.

## VI. ANTITRUST DEFENSE

Section 252 of the Energy Policy and Conservation Act provides a defense against litigation under Federal or State antitrust law for actions taken by private firms to develop or carry out voluntary agreements or plans of action to implement the allocation and information provisions of the International Energy Program. This protection covers certain pre-emergency activities as well as actions taken when the emergency sharing system is activated by a supply shortfall of 7% or more.

Twenty-one U.S. oil companies having international business dealings voluntarily cooperate in the IEA's activities as "Reporting Companies." Without the EPCA antitrust defense, it would be difficult, if not impossible, for the firms to cooperate with the U. S. Government to fulfill our obligations under the IEP.

The EPCA antitrust defense is available only for activities of oil companies which are necessary "to develop or carry out voluntary agreements or plans of action to implement the allocation and information provisions of the International Energy Program." The existing "Voluntary Agreement and Plan of Action," adopted in March 1976, prescribes the method of holding meetings of the industry participants and the requirements for their activities during an emergency. It sets forth several antitrust safeguards that must be observed, such as the monitoring of industry meetings by U.S. Government observers and recordkeeping of those sessions. As contemplated by the Voluntary Agreement, antitrust "approval" or "clearance" letters periodically are issued by the Secretary of Energy to extend the antitrust defense to specific company data submissions to the IEA, or consultation with the IEA Secretariat, under conditions and for limited periods of time specified in such letters. These letters may be issued only after the Secretary of Energy consults with the Secretary of State, and only with the concurrence of the Attorney General after the Attorney General has consulted with the Federal Trade Commission.

The EPCA Section 252 antitrust defense has proven itself a valuable and necessary measure to allow U.S. participation in the IEP. The Administration therefore seeks its extension to June 30, 1985. The Administration is considering whether some amendment to Section 252 might be desirable, primarily to streamline its implementation.

Mr. **Sharp**. Mr. Thomas, you may proceed.

## STATEMENT OF HENRY E. THOMAS

Mr. **Thomas**. Thank you, Mr. Chairman, members of the committee, it is a pleasure to appear before this subcommittee to discuss the fiscal year 1983 budget implications for the Department of Energy's Office of International Affairs. I do have a rather long statement which includes responses to specific questions which you, Mr. Chairman, had posed to the Department earlier. If that could be incorporated into the record, I would appreciate it.

Mr. **Sharp**. Sure.

Mr. **Thomas**. At this point, I would like to summarize those remarks. First, Mr. Chairman, let me assure you that the administration is planning for an orderly transfer of our international energy responsibilites during the reorganization of Federal energy programs. The international functions have been identified, and the final reorganization plan will indicate their proper placement.

Our planning is based, of course, on the budget as submitted by the President and a subsequent legislative package as yet to be submitted to the Congress, implementing the reorganization itself.

In response specifically to the questions you posed, Mr. Chairman, I would like to describe the Department of Energy's international programs briefly and how they are administered. The DOE Reorganization Act of 1977 sets the overall policy formulation role for the Office of International Affairs. The office represents the United States in a variety of forums and provides technical and analytical support to the Department and other branches of the Government, including the White House, the Departments of State, Defense, Treasury, Commerce, and the Office of the U.S. Trade Representative.

Our international representational responsibilities in the oil sector are discharged primarily at the International Energy Agency where we address the technical and domestic policy perspectives, in conjunction with the Department of State which deals with the foreign policy aspects of the matters at hand. Our staff participates in the standing groups of the IEA and its governing board deliberations where I cochair the U.S. representation with the Department of State. We represent the United States before civilian NATO bodies relating to emergency planning.

The Energy Policy and Conservation Act provides an antitrust defense for U.S. oil company participation in the international energy program. We administer the recordkeeping and monitoring requirements essential to the participation of these U.S. companies, and therefore, to the functioning of the sharing system overall. The Office International Affairs staff provides a link with the oil company representatives and various IEA boards to insure the readiness of the IEA's international emergency mechanisms.

The Energy Security Act of 1980 requires development of an acquisition strategy to fill the strategic petroleum reserve. We provide an assessment of the international implications of this strategy in close cooperation with the Department of Energy's Office of Environmental Planning, Safety and Emergency Preparedness. During an oil supply emergency, when it would be impaired, when it would be imperative that the U.S. domestic responses reflect both our international obligations and the rapidly changing international situation, this close working relationship with the Office of Emergency Preparedness would be critical.

The Atomic Energy Act of 1954 and the Nuclear Non-Proliferation Act of 1978 assigned to the Department of Energy specific responsibilites in international nuclear cooperation and nonproliferation, including the principal responsibility for concluding subsequent arrangements for the transfer of nuclear materials under international agreements for the peaceful uses of atomic energy. The lead responsibility for this in the Department of Energy is vested in the Office of International Affairs. We have, in the last year, reviewed and acted on approximately 200 of these subsequent nuclear arrangements, and made arrangements further for increased interactions to create a strong nonproliferation regime.

I represent the United States on the governing body of the Nuclear Energy Agency and provide staff and technical support to the U.S. representation to the International Atomic Energy Agency. In nonnuclear research and development, the Energy Reorganization Act of 1974 and the Solar Energy Research, Development and Demonstration Act of 1974 established requirements for international cooperative programs. The Department has approximately 100 such cooperative energy R. & D. agreements and other commitments covering some 260 different projects nationally.

The International Affairs Office serves as a link so that in the initiation or termination of such programs that they reflect both the foreign and domestic policy considerations. However, in this administration, we have made substantial shifts already to assure that the actual management of these programs takes place by the line programs charged with those particular areas of responsibility within the Department.

The Assistant Secretary for International Affairs presently serves as the senior intelligence officer for the Department and represents the Department on the National Foreign Intelligence Review Board. I am responsible to the Secretary on foreign intelligence matters, with the exception of those directly related to defense weapons activities.

Under the national foreign intelligence program, I do represent the Department to the Director of Central Intelligence and coordinate DOE's participation in the intelligence community. We currently provide support for developing country energy issues and programs to the Departments of State, Treasury, the Agency for International Development, the Overseas Private Investment Corporation, as well as selected other U.S. Government organizations. The International Affairs Office also represents the U.S. Government on the IEA subgroup analyzing energy markets in developing countries for purposes of a better understanding of world oil markets.

Let me emphasize, please, Mr. Chairman, that the role of international affairs in the Department of Energy is different from, yet complementary to, that of the Department of State. I believe my colleague from the Department of State has quite correctly addressed that delineation of responsibility.

The detailed knowledge of the world oil market, contacts with the international oil industry and representation on international bodies does provide an important input for the formulation of international emergency preparedness policy. In nonemergency energy areas, IEA provides data and technical support for U.S. participation in the IEA, the economic summit, as noted, and other international energy arenas.

In closing, Mr. Chairman, I want to assure you and the members of the committee that the administration considers these functions and the international energy activities in the Department of Energy most important, and has made preparation for their continuing and thorough handling in the Department of Commerce. In the event the Congress does not enact the proposed reorganization legislation or if it is changed substantially, we will of course have to reevaluate resource requirements that might subsequently ensue.

Mr. Chairman, as a personal note, I have personally had conversations with the Secretary of Energy and the Deputy Secretary on this subject directly, and with the Secretary and Deputy Secretary of the Department of Commerce on this subject. I feel that both parties, the principals concerned with the reorganization proposals, are thoroughly conversant with the responsibilities of the Department of Energy, as well as the responsibilities presently inherent in the Department of Commerce.

I think, indeed, when the proposals are submitted to the Congress for your consideration, you will find that there are some areas of overlapping jurisdiction where we can accomplish substantial additional efficiencies in Government through this reorganization proposal. I do not believe personally, on my review, that any of the principal responsibilities which we pesently have in the international energy area in the Department of Energy will suffer in the process.

Thank you, Mr. Chairman.

[Testimony resumes on p. 176.]

[The prepared statement of Mr. Thomas follows:]

Testimony of Henry E. Thomas
House Subcommittee on Fossil and Synthetic Fuels
March 10, 1982

Mr. Chairman, Members of the Subcommittee:

It is a pleasure to appear before this Subcommittee to discuss the FY 1983 budget implications for the Department of Energy's Office of International Affairs. Our funding request for $400,000 is structured to accord with the proposed reorganization of Federal energy programs currently administered by the Department of Energy. Mr. Chairman, you have expressed concern that the United States will be hampered in its ability to cooperate with its allies on matters of mutual energy security. I would like to reassure you that the Administration is planning for an orderly transition of our international energy responsibilities under the reorganization of Federal energy programs. The necessary international functions have been identified and the final reorganization plan will indicate their proper placement. This planning is based, of course, on the budget as submitted by the President and a subsequent legislative package to be submitted to the Congress implementing the reorganization of Federal energy functions. The reduction of funds and the reorganization legislation are consistent with the Administration's desire to improve the effectiveness and efficiency in accomplishing the energy role of the Federal Government.

On December 17, 1981, the President announced his intention to make the Department of Commerce responsible for responding to energy supply emergencies and our relations with international energy organizations. Thus, the Department of Commerce will assume responsibilities for US representation at the Nuclear Energy Agency, International Energy Agency (IEA) Committee on R&D, and negotiating, administering and performing under bilateral agreements all of which have been performed by DOE and its predecessor agencies. The President's statement demonstrates his intent to ensure the continuity of our international energy activities and commitments during the transfer of responsibilities to Commerce.

The reorganization is the culmination of a process which began with the current Administration's decision to stop the inordinate expansion of the Federal role in the energy sector. Initial steps were taken in February 1981 with a revised budget request for FY 1982 which reflected a decision to redirect Federal support from demonstration and commercialization activities in favor of longer-term, high-risk, potentially high-payoff research and development. That trend has been continued and further refined in the FY 1983 budget request which has been prepared on the assumption that the critical and ongoing Federal energy programs would be assigned, after passage of appropriate legislation, to other agencies for management.

In response to your specific questions, I would like to explain what DOE's international programs are and how they are administered. DOE's international role differs from that of the Department of State. We both have roles in international energy matters. It is a relationship I would characterize as complementary. DOE's Office of International Affairs has a unique mandate and corresponding abilities to provide and facilitate the specialized technical and analytical support--based upon US domestic energy program interests, foreign energy program interests, and developments in international energy markets--to State in the many areas in which international energy matters affect US foreign policy. DOE provides similar specialized advice to the President and to the Departments of Defense, Treasury, Commerce and the US Trade Representative, to ensure that US energy interests are carefully weighed in all appropriate international deliberations.

In response to your inquiry regarding the legislative and executive mandates on these functions, I would like to describe our statutory and executive bases.

The DOE Organization Act of 1977 sets the overall policy formulation role for the Office of International Affairs. This role is both analytical and representational. We provide the analytical base for policy decisions; for example, we closely follow international oil markets, including spot markets. Our analysis also includes pricing trends, patterns of sale, and the movement of crude. This information would be used by an operational crisis cadre in the event of an oil supply disruption. In cooperation with the DOE Office the Assistant Secretary for Environmental Planning Safety and Emergency Preparedness (EP), we analyze the full range of international energy emergency preparedness issues related to oil supply disruptions. The Office of International Affairs also provides policy and technical data support throughout the government on international natural gas issues, including support to the Economic Regulatory Administration and the Federal Energy Regulatory Commission on Canadian and Mexican exports of natural gas to the US. We provide information and analyses throughout the government on issues such as European dependence on Soviet natural gas. We also work very closely with the DOE's Energy Information Administration (EIA) in providing international analyses and interpretations related to DOE's energy data collection and publication requirements. This includes contributions to: the Weekly Petroleum Status Report; EIA's Annual Report to Congress; the annual report to the IEA on US energy trends and policies; and periodic data collection related to participation in international organizations.

Our representational responsibilities are discharged, sometimes in conjunction with the Department of State, primarily at the International Energy Agency (IEA), where we were successful in developing member countries consensus on the need to rely on market forces to deal with oil supply disruptions and in achieving an appropriate emphasis on long-range, high-risk technical cooperation. The IA staff and those of other DOE offices participate in the Standing Groups of the IEA and its Governing Board deliberations. We represent the US at the Nuclear Energy Agency (NEA), the International Atomic Energy Agency (IAEA), before civilian NATO bodies relating to emergency planning, and organizations such as the Economic Commission for Europe on coal standardization issues and the European Communities on preparations for oil supply disruptions. We also sit on numerous joint committees and commissions under bilateral arrangements with key consuming and producing nations.

The Atomic Energy Act of 1954, as amended, and the Nuclear Non-Proliferation Act (NNPA) of 1978 assign to the Department specific responsibilities in the areas of international nuclear cooperation and non-proliferation including, participation and concurrence in the negotiation of international agreements for cooperation in the peaceful uses of atomic energy and principal responsibility for concluding "subsequent arrangements" for the transfer of nuclear materials under those international agreements. For example, in the past year we have reviewed and acted on over 200 of these subsequent arrangements, conducted extensive negotiations of agreements for cooperation with several governments and international organizations that will support nuclear development with US technology, and created institutional frameworks for increased nuclear interaction to create a strong non-proliferation regime.

Section 252 of the Energy Policy and Conservation Act (EPCA) provides an anti-trust defense for US oil company participation in the International Energy Program (IEP) administered by the IEA. The IEP Agreement commits the US to participate in an information program and an emergency oil sharing system. Without US oil company participation, the IEP's emergency sharing provisions would be ineffective. Our administration of the Section 252 recordkeeping and monitoring requirements in cooperation with the Office of General Counsel is essential to the participation of US companies, and, therefore to the functioning of the sharing system overall. Specifically, we work with oil company representatives participating in the IEA's Industry Advisory Board (IAB), the Industry Working Party (IWP) and the Industry Supply Advisory Group (ISAG) in ensuring the readiness of the IEA's emergency mechanisms.

Pursuant to the Natural Gas Act of 1938, Section III, as amended by the DOE Organization Act, the Department determines that proposed natural gas imports and exports are not inconsistent with the public interest based on criteria that include energy security. The Office of International Affairs provides policy and technical support for the Economic Regulatory Administration and the Federal Energy Regulatory Commission in these areas. In the area of export control, IA exercises the DOE policy advisory opinion role in oil and gas production equipment and technology exports (Export Administration Act of 1969, Section 5(a)).

The Energy Security Act of 1980 requires development of an acquisition strategy to fill the Strategic Petroleum Reserve (SPR). We provide an assessment of the international implications of this strategy, in close cooperation with the DOE Office of the Assistant Secretary for Environmental Planning, Safety and Emergency Preparedness (EP). As EP is responsible for US energy emergency response measures, its orientation and expertise is primarily domestic. IA therefore works closely with EP to assure that its plans take into account ongoing international realities and that the US position before international energy bodies accurately reflects domestic energy emergency policy. This close working partnership has been in evidence in US representation at the various emergency planning groups of the IEA & NATO, the development of an SPR distribution management manual, and the oil acquisition strategy for the SPR. We would expect that during an actual oil supply emergency, when it would be imperative that US domestic responses fully reflect both our international obligations and the rapidly changing international situation, that this close working relationship would be most critical.

In nonnuclear research and development, the Energy Reorganization Act of 1974 and the Solar Energy Research, Development, and Demonstration Act of 1974 establish mandates for international cooperative programs. We now manage and administer over 100 cooperative energy R&D agreements and other commitments (which cover more than 260 projects) with foreign nations and international organizations, including the IEA, the Nuclear Energy Agency and the IAEA.

The Assistant Secretary for International Affairs presently serves as the Senior Intelligence Officer for the Department and represents the Department on the National Foreign Intelligence Review Board. While the Assistant Secretary for Defense Programs has departmental intelligence responsibility for nuclear weapons matters, the Assistant Secretary for International Affairs has responsibility for all other intelligence functions of the Department. These include direct responsibility to the Secretary on foreign intelligence matters, program management responsibility for all responsibilities under the National Foreign Intelligence Program (NFIP), representing the Department to the Director of Central Intelligence, and coordinating DOE's participation in the intelligence community.

We currently provide support for developing country energy issues and programs to the Departments of State and Treasury, the Agency for International Development, the Overseas Private Investment Corporation, as well as other USG organizations. We also serve on an IEA subgroup which is analyzing energy markets in developing countries for purposes of a better understanding of the impact on world oil markets. International Affairs also serves an international administrative role which includes arrangments for the visits of Cabinet and Sub-cabinet level officials from foreign countries.

In summary, International Affairs serves as a liaison with the intelligence community, the rest of the US Government, foreign nations and international organizations, and the oil industry on international energy matters. These functions are important in the event of oil supply disruptions and for nuclear nonproliferation and energy technology oversight purposes.

The history of appropriations for DOE's international function is as follows: FY 1980 - $9.1M; FY 1981 - $8.9 M; FY 1982 - $4.9M. The decline in FY 1982 was caused by the termination of the Country Energy Assessment Program at the end of FY 1981, and by tightened management and realignment of responsibilities to remove redundancies and achieve greater efficiencies and economies. Our FY 1983 request of $400K is for severence pay. This request is consistent with the President's plans to assure that international energy functions, including intelligence responsibilities, now tasked in DOE will be appropriately assumed by the Department of Commerce. I want to assure you that the Administration considers the international activities very important and has made preparations for their continuing and thorough handling in the Department of Commerce. In the event the Congress does not enact the proposed reorganization legislation, or it is changed substantially, we will have to reevaluate resource requirements.

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Mr. **Sharp**. Thank you. Mr. Vaughan, we are happy to have you.

## STATEMENT OF WILLIAM A. VAUGHAN

Mr. **Vaughan**. Mr. Chairman, members of the committee, like my colleague I thank you for the opportunity to discuss the Department's energy preparedness program, and I have already submitted a more lengthy statement for the record and I will try to summarize that with these remarks.

As you know, the overriding goals of the energy preparedness program are, first, to reduce the Nation's vulnerability to energy supply disruptions and to mitigate their impacts upon the Nation. Our strategy in this administration to achieve these goals is to rely primarily on the marketplace to respond to disruptions in energy supply.

Although the Federal Government has always sought to reduce impacts of supply disruptions on our domestic economy, this administration has redefined significantly our method of achieving this goal. We have abandoned the policy of extensive Federal intervention so ineffective in previous supply disruptions because it created or exacerbated the adverse economic and social impacts.

Since the basic problem of a major energy supply disruption is the economy's difficulty in adjusting rapidly, one useful solution is to develop adequate crude oil stocks that can be drawn down in an emergency.

For the United States, protection against severe oil supply disruptions includes the strategic petroleum reserve. This reserve is now about one-third filled with over 243 million barrels of crude oil, more than double the amount in the reserve a year ago. The strategic petroleum reserve when filled to the 750 million barrels by 1990 goal, can deter politically inspired disruption of U.S. imports as well as to be used during a major oil emergency.

In addition to our commitment to the strategic petroleum reserve, we have underway other activities complementing the basic free market strategy. I will outline those. These include, first, developing a public information plan which will lead to greater public understanding of the need for energy emergency preparedness before a crisis occurs, and will provide effective communications during crises.

Two, working closely with the DOE Office of International Affairs and the International Energy Agency, we are developing contingency plans for a national emergency sharing organization and a mechanism to backstop voluntary offers by U.S. oil companies if the IEA emergency system is triggered. We are also planning for U.S. participation in IEA's allocation system Test-4 in the spring of 1983, and are represented on IEA's AST-4 design group.

Third, we are analyzing the energy requirements of the Department of Defense. In this regard, we are negotiating with the DOD, a joint memorandum of understanding to establish procedures to meet the needs of DOD and its defense contractors. In addition, we are coordinating the Department of Energy's substantial participation in the Emergency Mobilization Preparedness Board, established by our President last December.

Fourth, we are studying the economic impacts of potential energy supply disruptions.

Fifth, we are trying to identify and develop plans for removing regulatory, environmental, technical and economic barriers to efficient emergency use.

Sixth, we are developing and refining a daily energy situation report, what we call an early warning to provide accurate and timely assessment of energy markets and conditions. The Government cannot and should not attempt to accomplish the emergency preparedness task alone. To obtain needed energy expertise and planning for and during energy emergencies, we are working to revitalize the long-dormant executive manpower program, specifically, the emergency electric power reserve, the emergency petroleum and gas reserve, and the emergency solid fuels reserve.

Turning now to the funding history of the emergency preparedness program, let me briefly outline it. Resources for the Department of Energy's emergency preparedness program in fiscal year 1980 were $14.8 million, $12.3 million in fiscal year 1981, $10.3 million in fiscal year 1982, and our fiscal year 1983 budget is $5.4 million.

Some of you may be concerned that our funding request for this program is substantially less than requested in the past. But funding requests by the previous administration were based on the assumption that Government could meaningfully plan the allocation of petroleum during a supply disruption. Since we do not believe such is possible, a simpler and more direct approach requires less money.

Before 1981, responsibility for DOE's energy emergency preparedness program was divided among several offices. As a result of the reorganization adopted by Secretary Edwards in February 1981 we are now well positioned to develop coherent plans for oil supply disruptions and other energy emergencies. For the first time, nearly all energy contingency planning and emergency planning preparedness responsibilities are within a single DOE office.

In regard to the GAO report of September 29, 1981, and a more recent version I understand released yesterday, I want to point out that the general thrust of these reports, as well as a number of GAO recommendations, reflect a fundamental difference of opinion between the administration's emergency preparedness policy of market reliance and GAO's perception of the need for an activist, interventionist Federal Government role in planning for and implementing energy supply disruption responses through regulation.

Such regulation, which has been tried in the past, in our judgment has simply proved counterproductive. Therefore, we fundamentally disagree with the GAO report and its approach.

A final subject I want to address is the augmentation of staff during emergencies, in response to your concern about the need for additional staff. Our market oriented strategy precludes the need for a large bureaucracy because, as I mentioned before, the executive manpower reserve program will, in our judgment, provide the immediate industry expertise needed during energy emergencies.

This, Mr. Chairman, concludes my presentation. I would be pleased to answer any of your questions or those of other members of the committee.

Mr. **Sharp**. Thank you very much.

[Testimony resumes on p. 188.]

[The prepared statement of Mr. Vaughan follows:]

# STATEMENT OF WILLIAM A. VAUGHAN
ASSISTANT SECRETARY, ENVIRONMENTAL PROTECTION,
SAFETY, AND EMERGENCY PREPAREDNESS
DEPARTMENT OF ENERGY
BEFORE THE
HOUSE COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON FOSSIL AND SYNTHETIC FUELS
MARCH 10, 1982

Mr. Chairman, Members of this Subcommittee. Thank you for the opportunity to discuss the Department's Energy Emergency Preparedness Program.

## ENERGY EMERGENCY PREPAREDNESS GOALS AND ACTIVITIES

The overriding goals of the Energy Emergency Preparedness Program are to reduce the Nation's vulnerability to energy supply disruptions and to mitigate their impacts on the nation. Our strategy to achieve these goals is to rely primarily on the marketplace to respond to disruptions in energy supplies. Accordingly, we seek to remove barriers to short-term adjustments in the marketplace. Although the Federal Government has always sought to reduce impacts of supply disruptions on the domestic economy, this Administration has redefined significantly our method of achieving this. We have abandoned the policy of extensive Federal intervention which has proven to be ineffective in previous supply disruptions, such as oil allocation, price controls, and mandatory demand restraint measures, because we found they created or exacerbated the adverse economic and social impacts.

Since the basic problem of a major energy supply disruption is the economy's difficulty in adjusting rapidly, one useful solution is to develop adequate crude oil stocks that can be drawn down in an emergency. Both private and Government-owned stocks are effective in dealing with oil supply disruptions, associated economic losses and national security threats.

For the United States, protection against severe disruptions in petroleum supplies includes the Strategic Petroleum Reserve. This Reserve is about one-third filled, with over 241 million barrels of crude oil--more than double the amount of the reserve over a year ago. The SPR, when filled to 750 million barrels by 1990, may help deter politically inspired disruptions of U.S. imports as well as be used during a major oil emergency. The use (or drawdown) of SPR is not automatic or pre-determined. Rather, the decision to use the SPR will be based upon circumstances at a particular time. Factored into our decision will be the estimated length and severity of the disruption, as well as actions by our allies.

In addition to our commitment to the SPR, we are seeking to encourage the buildup of private stocks by suppliers and large consumers before an emergency, and we are working to remove disincentives for private stockbuilding.

Also, we have underway a number of other activities that complement the free market strategy. These include:

1. Developing a public information plan for use in energy emergencies which will lead to greater public understanding of the need for energy emergency preparedness before a crisis occurs and will provide effective communications during a crisis. An important part of this effort is to encourage suppliers and consumers, as well as State and local Governments, to develop their own contingency plans.

2. Working closely with the DOE Office of International Affairs until the office is phased out next year and the International Energy Agency (IEA). As we indicated in our July 1981 report entitled "Domestic and International Energy Emergency Preparedness," we are developing contingency plans for a National Emergency Sharing Organization and a mechanism to backstop voluntary offers by U.S. oil companies in the event the IEA emergency system is triggered. We are also developing plans for U.S. participation in the IEA's Allocation System Test-4 in the Spring of 1983.

3. Analyzing the energy requirements for the Department of Defense (DOD). DOD is the largest single energy consumer in the U.S. We are committed to providing

energy for national defense. During a major supply disruption, we have the authority under the Defense Production Act (DPA) to allocate energy supplies for national defense. We are negotiating with DOD a joint Memorandum of Understanding to establish the procedures for meeting the needs of DOD and its defense contractors. In addition, virtually the full Government share of NPR production will be available exclusively to the DOD starting in April.

4. Studying the economic effects of potential energy supply disruptions.

5. Identifying and developing plans for removing regulatory, environmental, technical and economic barriers to efficient emergency energy use. We are also examining State regulatory restrictions that could be temporarily lifted to increase oil surge production.

6. Developing and refining a daily energy situation report--an "early warning" to provide accurate and timely assessments of energy markets and conditions. In addition, we are developing a rapid information retrieval and analytical capability utilizing EIA data and expertise. These efforts are being conducted with the Energy Information Administration and other relevant DOE offices.

7. Developing a National Oil Board operations plan in support of the U.S. commitment to the NATO civil emergency planning organization and NATO Wartime Oil Organization.

Government cannot and should not attempt to accomplish the emergency preparedness task alone. To obtain needed industry expertise in planning for and during energy emergencies, we are considering the revitalization of the long dormant Executive Manpower Reserves--the Emergency Electric Power Reserve, the Emergency Petroleum and Gas Reserve and the Emergency Solid Fuels Reserve. The Reserves will provide a role for both energy producers and consumers as well as for State and local Governments, financial institutions, and other business, on a volunteer basis, without establishing a permanent bureaucracy.

ENERGY EMERGENCY PREPAREDNESS PROGRAM: FUNDING-HISTORY

Resources for the Department's Energy Emergency Preparedness Programs in FY 1980 were $14.8 million; $12.3 million in FY 81; $10.25 million in FY 82; and our FY 1983 budget request is $5.4 million.

Some of you may be concerned that our funding request for this program is substantially less than has been requested in the past. But funding requests for this area of activity in the previous Administration were based on the assumption that the

Government could meaningfully plan the allocation of petroleum during a supply disruption. We do not believe that is possible. We have a much simpler and more direct way of dealing with supply disruptions. The approach we advocate requires a lower level of funding.

Before 1981, responsibility for DOE's energy emergency preparedness program was divided among several offices, including the Emergency Conservation Office in Conservation and Solar, the Oil Supply Security Office in Policy and Evaluation, and the Offices of Emergency Coordination, Power Supply and Reliability, and Emergency Preparedness in the Economic Regulatory Administration.

As a result of the reorganization adopted by Secretary Edwards in February 1981, we are now well positioned to develop coherent emergency contingency plans for oil supply disruptions and other energy emergencies. For the first time, nearly all energy contingency planning and emergency preparedness responsibilities, including the Strategic Petroleum Reserve (SPR), the Naval Petroleum and Oil Shale Reserves program, and the Office of Energy Emergencies, are within a single office in DOE.

## GAO REPORT OF SEPTEMBER 29, 1981, ON EMERGENCY PREPAREDNESS

In regard to your question concerning our response to the GAO report of September 29, 1981, on Emergency Preparedness, I want to point out that the general thrust of the report as well as a number of the GAO recommendations reflect a fundamental difference between the Administration's energy emergency preparedness policy of primary reliance on the free market, and GAO's perception of the need for an activist and interventionist Federal Government role in planning for and implementing energy supply disruption responses through regulatory measures, such as allocation and price controls, and demand restraint measures. These measures have been tried in the past and have proven counterproductive.

## EIA AND IA SUPPORT

Another area of concern raised in your letter is the support Energy Emergencies receives from EIA and IA. We have relied on both offices, to varying degrees in the past, to assist and facilitate our analysis and planning responsibilities.

EIA provides basic energy information, technical support and modeling expertise. For general market analysis, we use a variety of data sources, including EIA, intelligence information and private data to monitor the ever-changing domestic and international energy situation. In emergencies, or as special problems arise, we use these sources and our own staff analysts to assess situations and share information with other concerned officials in the Government, both Federal and State, and industry to determine if any emergency action is warranted.

Through careful planning and proper use of limited funds, we are confident that we can shift resources as needed to continue the necessary analysis to support our energy emergency preparedness planning.

Although the Office of International Affairs has been our main point of contact with the IEA, EP has developed a direct working relationship with both the State Department and with IEA for emergency preparedness planning and operations, and we have participated along with IA in a number of international activities.

In connection with AST-4, EP and IA are represented on the U.S. delegation to the AST-4 Design Group, the international body that plans the AST-4 exercise. Other participants in the Design Group are the Departments of State and Justice, the Federal Trade Commission, industry representatives, IEA Secretariat staff and other IEA members. EP's representation on the U.S. delegation to the Design Group permits us close contact with counterparts whose concerns include preparedness for an international oil supply disruption.

EP along with IA also participates in the activities of the NATO Petroleum Planning Committee. This affords other opportunities for coordination of international energy emergency work with our allies. We have additional contact with other U.S. agencies through our participation in various working groups of the President's Emergency Mobilization Preparedness Board.

We also rely upon IA to staff DOE's intelligence desk and prepare certain classified reports to support the emergency preparedness program. We believe that this latter function is absolutely essential to our emergency planning and operational responsibilities. However, this function, as well as the others now performed by IA, could be easily picked up as part of the Department of Commerce's international program, or alternatively, as part of our own activities by drawing on expertise in other agencies including the Central Intelligence Agency and the State Department. On this basis, we do not foresee any substantial problems resulting from the proposed budget reductions in the DOE international program.

## AUGMENTING STAFF DURING ENERGY EMERGENCIES

The current organization of the Office of Energy Emergencies is based on a team approach. We maximize our staff resources and coordinate our planning and operations by integrating key elements from a range of Departmental functions. Using a task force or team approach gives us the staffing flexibility to draw from a wide reservoir of talent and skills in order to address energy concerns that are diverse and cross-cutting.

Therefore, if the need arises, other people in the DOE would be available to help the Office of Energy Emergencies on an "as needed" basis. This has been done, for example, for continuity of government and defense-related activities. Naturally, since the DOE intends to rely as much as possible on free market forces to respond to energy emergencies, there will be no need for numerous Government employees to be involved in such matters.

Also, as I mentioned previously, the Executive Manpower Reserve Program will provide immediate industry experience during energy emergencies.

This concludes my presentation. I will be pleased to answer any questions.

Mr. SHARP. Mr. Evered.

## STATEMENT OF J. ERICH EVERED

Mr. EVERED. Thank you, Mr. Chairman.

I am pleased to discuss today the role of the Energy Information Administration in supporting the Department of Energy's emergency preparedness and international activities. I will also review our fiscal year 1983 budget request, as you requested me to do. I would be pleased to summarize my remarks and submit a full prepared statement for inclusion in the record.

The fundamental mission of the EIA is to provide accurate and timely information to energy decisionmakers. As you have requested, I will focus my remarks on support for the Offices of Emergency Preparedness and International Affairs, beginning with emergency preparedness.

Almost all of our energy information collection and analysis programs can be considered as contributing to emergency preparedness since energy decisionmakers require basic energy information to monitor trends for emergency purposes. The EIA plans to retain its basic information programs with appropriate tools and skills and will be able to expand these programs to obtain information to monitor and respond to an emergency, should the need arise.

Our primary customers within the Department of Energy for energy emergency information are the Office of Emergency Preparedness, the Office of International Affairs, and the Federal Energy Regulatory Commission. Our energy emergency information programs include both multiple use basic information and information collected at the specific request of these organizations. Examples include the Weekly Petroleum Status Report, the Short-Term

Energy Outlook, the Natural Gas Curtailment System, the Coal Strike Monitoring System, and an emergency planning program to increase communication with State energy offices, to provide more rapid information collection and to coordinate existing data and analysis programs.

EIA recently completed a major restructuring, alining organizations by fuel type. This alinement places us in a stronger posture for focusing responsibility in planning for, and implementing, our response to an emergency situation.

Turning to the international area, our primary customers are the Department of Energy's Office of International Affairs and the International Energy Agency. We prepare several reports, including International Energy Agency Questionnaires B and C, and send them directly to Paris. Other information is provided to International Affairs or Emergency Preparedness. The EIA analytical staff work with their counterparts in International Affairs and Emergency Preparedness in preparing analyses of world oil markets, IEA's International energy program, world prices, economic impacts of potential supply disruptions, and the like.

The proposed elimination of the Office of International Affairs would not substantially impair EIA's role in providing information to the International Energy Agency since we frequently work directly with them in filling their data needs. Similarly, we have begun working with the staff of the International Energy Agency on data for the upcoming AST-4 exercise.

Finally, you have requested a summary of our fiscal year 1983 budget, which requests $54.5 million and 415 full-time equivalent staff years. This budget will continue our basic energy information agenda. Program changes generally reflect the decreased need for detailed information due to the administration's policy of placing greater reliance on the free market in seeking solutions to the Nation's energy future, and the need to reduce Federal spending.

Burdensome programs and those which parallel those of other government and private sources are proposed for elimination. For example, the financial reporting system is costly and burdensome and similar information is available from other Government and private sources. Also, mid- and long-term modeling and forecasting is conducted by several private sector sources which should supply a wide enough range of estimates concerning an uncertain future. The scope and level of detail of some data collections, including energy consumption and alternate fuels, will be reduced, as will survey design and forms clearance.

We will continue to produce our basic energy data series and provide basic support to the Federal Energy Regulatory Commission. We will also focus our analytical resources on interpretive analysis in order to turn raw data into relevant information, examine short-term energy trends, and study critical energy issues.

In summary, much of the work EIA does—data collection and short-term analysis on oil, gas, coal, electric, and nuclear energy supply, distribution, and consumption—prepares us to disseminate appropriate information in an emergency situation.

This concludes my remarks, Mr. Chairman. My colleagues and I will be happy to respond to any questions you or the committee may have.

[Testimony resumes on p. 199.]

[The prepared statement of Mr. Evered follows:]

Statement of J. Erich Evered
Administrator, Energy Information Administration
Department of Energy
Before the
House Committee on Energy and Commerce
Subcommittee on Fossil and Synthetic Fuels
March 10, 1982

Mr. Chairman, members of the Committee, I am pleased to appear before you today to discuss the capabilities of the Energy Information Administration (EIA) to provide information to support energy emergency preparedness and international energy activities, and to discuss our Fiscal Year 1983 budget request.

The fundamental mission of the EIA is to provide accurate and timely energy information to decisionmakers within and outside Government so that they can make informed decisions about energy, including potential emergency situations. In a broad sense, almost all of the EIA information collection and analysis programs can be considered as contributing to the Nation's emergency preparedness posture. The EIA is planning to continue the basic energy information programs needed to monitor energy trends for emergency preparedness purposes. In so doing, EIA will retain the institutional capability, both the tools and appropriately skilled staff, to expand upon its basic collections to obtain the required information, should the need arise.

Within the Department of Energy (DOE), EIA's major customers for information relevant to an energy emergency are the DOE Office of Environmental Protection, Safety and Emergency Preparedness, the Office of International Affairs, and the Federal Energy

Regulatory Commission. Outside DOE, customers include other Federal agencies, the Congress, State governments, international organizations, and the private sector.

EIA's energy emergency information program consists of several discrete activities that provide information useful for monitoring energy trends in a potential emergency situation. First is the development of a capability to provide a blueprint for information responses to various types of supply interruptions. It will allow managers to draw upon the existing EIA data and analysis programs for information relevant to an emergency situation. Other features include the use of computer assisted telephone interviewing to obtain responses to surveys more rapidly, and an automated communications network called DIALCOM to facilitate the exchange of information between Federal and State energy offices. Upon completion of development, some of these features will be placed in a standby status in 1983.

Second is the Weekly Petroleum Reporting System, from which the Weekly Petroleum Status Report is produced. The Weekly informs a wide audience of the overall petroleum situation on a current basis. The Weekly presents current information on petroleum supply, stocks, and inventories and is sent to over four thousand recipients. The Weekly is highly regarded by its clientele and has resulted in a marked decrease in ad hoc requests for current supply information, has ensured consistency in the supply information which is provided to the public, and has acted as a deterrent to undue reaction to isolated supply problems.

Resources for these two activities in FY 1980 were $5.2 million and 23 people; $4.6 million and 20 people in FY 1981; $2.1 million and 12 people in FY 1982; and $1.3 million and 7 people planned for FY 1983. These resources reflect the higher costs associated with program development in past years; operation and maintenance costs are expected to remain fairly stable in the future, since further expansions are not planned.

Other activities relevant to emergency preparedness that are an integral part of EIA's ongoing efforts include the Short-term Energy Outlook (or Outlook), the Coal Strike Monitoring System, natural gas curtailments information, and information for the International Energy Agency.

In many cases, information support for an energy emergency entails increased timeliness and level of detail of ongoing activities, not the creation of new data series. For example, the Outlook was reoriented during the 1981 United Mine Workers of America strike to focus on coal supplies and impacts of the strike. The staff concentrated on these areas during the strike, producing a special section of the Outlook during that time, then returned to normal activities following the strike. A similar approach would be taken during a supply interruption involving another energy area.

Also, detailed coal supply information, needed primarily during a coal strike, would be gathered rapidly by reinstituting the

Coal Strike Monitoring System, which worked very successfully during the 1977-78 and 1981 coal strikes. The system monitors coal stocks, receipts, and consumption at electric utilities, coke plants, and other industrial locations. Finally, the Natural Gas Curtailments System, which gathers annual projections of natural gas supplies, curtailments, and alternate fuels use, would be augmented by reactivating with the Office of Emergency Preparedness the "Gaseous Fuels Emergency Telephone Survey" should a natural gas emergency occur.

Last summer the EIA implemented a fundamental restructuring, with resulting organizational units aligned by fuel types. Thus, we have separate, consolidated Divisions of Natural Gas, Petroleum Supply, Coal, Electric Power, and others. Within these Divisions are assigned the skilled, experienced personnel responsible for fuel-specific data collection and processing, as well as interpretation and analysis. This alignment, in my judgment, places EIA in a stronger posture for quick action in an emergency situation. It provides for focused responsibility in planning and implementing our response.

The basic legislative mandate and information gathering authorities for emergency preparedness and other EIA programs are contained in the Federal Energy Administration Act of 1974 as amended by the Energy Conservation and Production Act, the Energy Supply and Environmental Coordination Act of 1974, and the Department of Energy Organization Act. In addition, EIA provides energy information services to those DOE offices responsible for carrying out their mandated energy programs.

Turning to the international area, information is currently provided to the International Energy Agency (IEA) on a routine basis; therefore, emergency reporting could be instituted quickly. The principal DOE users of EIA's international energy information program, Emergency Preparedness and International Affairs, receive copies of International Energy Agency Questionnaires B and C, which contain current and projected U.S. petroleum supply information, and other data and analyses prepared and transmitted by EIA directly to the International Energy Agency. Emergency Preparedness sponsors the collection of cost data from equity, concessionary, and F.O.B. purchases by U.S. companies on the Foreign Crude Oil Cost Report; and crude oil stocks collected on an ownership basis by the Crude Oil Ownership Report. Other information for the International Energy Agency is provided directly by other DOE components.

EIA analytical staff exchange analyses with both Emergency Preparedness and International Affairs concerning: current and future world oil markets, the International Energy Agency's International Energy Program and its implications for U. S. supply during a supply interruption, and information used to determine appropriate amounts and types of oil to be stored in the Strategic Petroleum Reserve. Data and analyses of current world oil production, consumption, trade, and prices prepared by EIA and International Affairs are used to monitor the world oil situation. The EIA also prepares projections of prices and economic impacts of potential supply disruptions. Finally, as I previously mentioned, the EIA routinely prepares quarterly short-term projections of U.S. energy supply, demand, and prices.

Beyond the basic information programs, other support for Emergency Preparedness and International Affairs, as well as for other DOE components, is generally accomplished on a case-by-case basis in response to a specific request. Data services are provided through Energy Data Services Requests, and special analyses are prepared as specified by the requesting program office. EIA works closely with these organizations to assure that essential programmatic energy information needs are met. Many of the EIA information programs have been designed with the capability to satisfy multiple purposes, including both general statistical reporting and specific program needs. Requests for information which can be met with existing capabilities are routinely satisfied. Requests which require special services, such as a specialized data collection or modifications to the data processing systems, are usually met on a reimbursable basis.

EIA performs its functions, including support for Emergency Preparedness and International Affairs and the international energy information program, according to its Annual Operating Plan, which lists all approved projects for the year with resource and priority information. Should an emergency arise, EIA would examine the priorities in the Operating Plan, assess the types of skills needed for the emergency vis-a-vis individual Operating Plan projects, and shift resources with appropriate skills from lower priority projects to meet the emergency needs. Should the emergency persist, and there be a Federal role defined, it is possible that EIA would find it necessary to request additional resources, in both staff and funds.

The EIA does not plan to reduce the resource level for the international energy information program, regardless of decisions regarding the organizational placement of the functions now performed by the Office of International Affairs. The proposed elimination of the Office of International Affairs has two direct impacts on the EIA. First, our two offices do collaborate on several international information projects. We are currently engaged in discussions with International Affairs on how best to ensure that U.S. international energy information obligations will continue to be met. Second, the EIA transmits some of the information it provides the International Energy Agency through International Affairs staff. An alternate, secure means of transmitting the information would have to be arranged. Additionally, International Affairs provides official technical representatives on four International Energy Agency standing committees, and International Affairs representatives chair an ad hoc data committee. The selection of replacement representatives could alter the procedures now in place. With respect to EIA activities, I do not regard these impacts as unduly large or unworkable.

The EIA role in the International Energy Agency's upcoming Allocation System Test (AST-4) exercise is not directly impacted by the decision on the placement of the functions of the Office of International Affairs, since the EIA interacts directly for data regarding U.S. oil companies with the International Energy Agency on this project. The only problem EIA foresees in this project would be the introduction of new U.S. representatives, with a change in procedures for collecting and transmitting U.S. input into AST-4, either immediately prior to or during the exercise. We are working with all existing organizations that would be involved in AST-4 to keep communication lines open.

Finally, I will conclude with a summary of other program changes reflected in the Fiscal Year 1983 budget request. This request is for $54.5 million and includes 415 full-time equivalent staff years. As you know, the President's budget assumes continuation of the EIA in FY 1983 as an independent Bureau of Energy Information within the Department of Commerce. Our agenda would remain basically unchanged if the reorganization takes place as contemplated. The program changes in the budget have been largely in response to the Administration's overall energy policy of placing greater reliance on the free market in seeking solutions to the Nation's energy future, and the necessity to reduce spending by the Federal government.

For example, the demands of Federal program managers for detailed data needed to implement regulatory programs have been reduced. Other proposed major program changes include the elimination of the Financial Reporting System and mid- and long-term modeling and forecasting. The Financial Reporting System is costly and burdensome and much of the information is available from other Government and private sources. Similarly, several private sector sources prepare forecasts of future energy trends. With the inherent uncertainty that attaches to any longer-term projections, the estimates from these sources should provide a sufficiently broad range of possible energy futures. The scope of some data collections, such as consumption and alternate fuels, will be reduced without a significant loss of timely and relevant information. Finally, survey design and forms clearance will be concommitantly reduced.

We will continue the production of our basic energy data series and support of the basic information requirements of the Federal Energy Regulatory Commission. We will also be focusing our analytical resources on interpretive analysis to turn raw data into relevant information, on examining short-term energy trends, and on critical energy issues, such as natural gas decontrol and electric utility financial constraints.

In summary, much of the work EIA does--data collection on oil, gas, coal, nuclear, and electric energy supply and distribution, consumption, and short-term analysis--prepare us to disseminate appropriate information in an emergency. Through careful planning, EIA is prepared to shift resources to any fuel area in which a supply or other disruption occurs, and to provide information needed by energy decisionmakers.

This concludes my presentation on current and planned EIA support for the Department's emergency preparedness and international energy activities. I will be happy to respond to any questions you may have.

Mr. **Sharp**. Thank you very much, Mr. Evered. I am glad to have all of you with me. I think we have the questions now of Mr. Corcoran.

Do you have any questions?

Mr. **Corcoran**. Thank you, Mr. Chairman. Let me say, first of all, that I would say there is a genuine concern on the part of many people about the reduction in funding for your various activities and, of course, that raises the question as to whether or not the United States would be prepared in the event of an emergency, and second, whether or not we are appropriately taking steps to anticipate any kind of a shortage.

So I think one of the things that the subcommittee would like to learn this morning is what will be done. What kind of resources will you have in order to get the information in a timely fashion and, secondly, whether or not in the event of a shortage the United States will be in a position to deal effectively with that shortage?

So the first question I have is for Mr. Evered. It has to do with our ability to compile data, our ability to get the information that is necessary. As you well know, and as has been indicated in various news reports, the amount of money that has been requested for your particular function has been drastically reduced. So the question I have is how will you be able to gather the information, how will you be able to appropriately evaluate the data that you get, and, in addition to that, will we really be in a position in an independent way to have the information necessary with respect to the oil market, with respect to the spot market, with respect to our ability to respond to prices?

Mr. **Evered**. Let me say at the outset, Congressman, that I am fully confident that at the budget levels contemplated and proposed in fiscal year 1983, the EIA will be able to support fully the Department's and the Government's emergency preparedness plans. We do not contemplate reducing the resources available to EIA's basic emergency preparedness data collection activities.

We will continue to conduct the Weekly Petroleum Reporting System and publish the Weekly Petroleum Status Report, which provides a continuing, credible, and reliable source of information to monitor the petroleum markets domestically and worldwide.

We will continue to produce quarterly the Short-Term Energy Outlook, which gives a forward-looking 15-month examination of what we expect to happen in the domestic and world energy markets.

We will continue to have in-house the capability to respond to any supply shortfall of any of the fuels, be it oil, gas, or coal. I am confident that we will not be impaired.

Mr. **Corcoran**. The development of this data is something that concerns me. It is my understanding, particularly in view of the testimony yesterday from Dexter Peach of the GAO, that currently your agency and in the past your agency has duplicated a lot of compilation and gathering of data functions that industry and private foundations, private sources, already compile.

When you talk about the reduction in resources for your agency, are you talking about eliminating some of these data-gathering functions that are already being performed by other people?

Mr. **Evered**. It is not for me to say that other organizations will eliminate their data collections. We do not propose to eliminate our data collections in this area.

It is correct that there is some redundancy between our data collections and those conducted by certain trade associations and other organizations. We find value in continuing our data collections. The value is in their reliability, credibility, documentation, and verifiability. We do not propose to drop ours and depend upon others.

Mr. **Corcoran**. So are you testifying you will still be able to gather the data independently, that you are not simply going to take the reports from, say, one of the oil companies or one of the trade associations, but that with the resources that you have requested you will be in a position to independently gather the data on these markets?

Mr. **Evered**. That is correct. We will continue to gather data directly from primary sources of information and not simply accept submissions in aggregate form from other organizations.

Mr. **Corcoran**. Then the question I think many of us would have would be how come you can do it with so much less money than was done in the past?

Mr. **Evered**. Because the resource reductions are not being applied to this area. The large resource reductions and the program cutbacks for the Energy Information Administration are being applied to other activities of the agency, not to emergency preparedness or petroleum supply monitoring.

Mr. **Corcoran**. Can you tell us which of those functions are being eliminated?

Mr. **Evered**. Primarily it is the mid- and long-term modeling and forecasting activities from which we produce multidecade looks at the energy future. This is a very resource intensive, expensive activity, and we propose its elimination in our fiscal year 1983 budget submission.

Additionally, specific programs were proposed for elimination in the fiscal year 1982 budget submission. The 1983 submission is cumulative in the sense that it again assumes elimination of those activities, some of which would require legislative repeal.

Mr. **Corcoran**. Mr. Vaughan, I have a question for you.

One of the concerns I have is that if we build up the strategic petroleum reserve, there is a simultaneous reduction in efforts on the part of industry to maintain appropriate inventories of oil and petroleum products.

I wonder if you could tell us just what steps are underway at the moment by your agency within the Department to encourage private end users to build up their stockpiles, to build up their inventories.

Mr. **Vaughan**. Yes, Congressman. I understand your concern. I think it is a valid one. The primary thing that we are doing, and I think the most important thing that anyone can do to encourage private stockpiling, is to remove the threat that the Government will seize that private property.

I believe this administration has very clearly removed that threat. I hope the President will veto the current legislation as a message that this administration has no designs on this private stockpile at all. I believe that is the most important thing that can be done.

We are continuing to look at incentives—tax devices and that sort of thing, but I must confess to you that in a hard budget year that has to undergo a very hard look, and it is getting just that kind of look. But that primarily, sir, is what we are doing about private stockpiles to try to remove disincentives by removing the threat that we, the Government, will deny citizens or companies who have prepared in advance the fruits of their preparation.

Mr. CORCORAN. As I am sure you will know, it will not disturb me very much if the President vetoes that legislation.

Mr. VAUGHAN. I am well aware of this.

Mr. CORCORAN. I would like you to elaborate a bit more on what you think the consequences would be for your efforts to encourage private stockpiling and the suppliers to build up their inventories if the Standby Petroleum Allocation Act in its present form were approved.

Mr. VAUGHAN. Oh, I think it would send, Congressman, a signal that the Government is still there with a standby plan to intervene in the marketplace and manage—a nice term for allocate—private property through a system of price and allocation controls required to look less harmful because they are labeled standby.

I do not think we need that, Congressman, and, as you know, I have been quite outspoken on that point. I think that this legislation, if it does become law, will send that kind of signal to all consumers in this country.

As a second matter, it will waste the resources in our energy emergency shop, the Deputy Assistant Secretary's Office for Energy Emergencies, to draw up a plan that this administration has no intent to use. I have testified that we have cut the budget for this office. I am comfortable with the level of funding in that office to manage energy emergencies in a market manner, as this administration intends.

However, if we are required to draft allocation and price control plans, we are going to have to review our needs.

Mr. CORCORAN. As I am sure you heard earlier, I was discussing with your colleague, Mr. Evered, the concern many of us have about the capacity of the Government and the capacity of this administration to independently gather the information in order to monitor the markets and be in a position to anticipate when the shortage might occur.

Your responsibility, of course, as well as the responsibility of Mr. Wendt, is more designed to planning what would happen in the event of a serious shortage or a real emergency in the energy markets.

So one last question I would like to ask of you, and also ask Mr. Wendt to discuss a little bit more, would be the concept to which you have made some comments, and he in his testimony on page 6 discussed as well. That is, when we are in an emergency there appears to be the belief of this administration—certainly according to your testimony this morning—that when you are in that position of an emergency, that there would not be, as in the past, the reliance on the Government to manage the allocation and the distribution of the petroleum resources, but there would be a good deal more reliance on private entities, on the marketplace, on the jobbers, on the oil companies—on all of those private factors in the oil market—to play a role even at the time and during that time that there would be an emergency.

Now what I am interested in knowing is just what precisely you envision the role of the Government to be in the event of a shortage and what precisely you would expect the role of private factors to be during the course of the emergency.

Mr. VAUGHAN. In the event of an emergency, Congressman, the role of the government, very importantly, would be first to analyze that situation on a continuing basis nationally and to furnish information to citizens and other levels of government about our interpretation of the significance of the shortages; second, to decide how and when to use the strategic petroleum reserve; third, to decide how and when to request relaxation of environmental requirements that burden energy usage. I am referring to temporary waivers; fourth, to enhance the surge production of the naval petroleum reserve.

Those are the types of things that we in energy emergency ourselves would do.

Fifth, we would use the emergency manpower reserves to try to solve any problems that develop through this or that if the private sector is unable to serve through its normal processes. I have great faith, Congressman, that the private sector will be able to supply the vast majority of this Nation's needs. After all, it is in its self-interest to continue to serve its customers.

I believe that industry can do it far better than any agency or staff that I or any other government official can create. So we will see ourselves as the helpers and facilitators and not the managers of this Nation's energy resources.

Mr. CORCORAN. Well, I am interested to hear your comments because as I recall the debate we had on the Standby Petroleum Allocation Act legislation and I had the impression that some of the proponents of that legislation thought the Government was going to hide in a corner and maybe adopt the laissez-faire attitude of some of the devotees of that particular approach to the distribution of goods and services.

I can see from what you have said that the Government would play a rather active role but it would not be a manager. I think there is an important distinction there. Obviously if you have the kind of crude oil in reserve as we now have and as we will continue to build up, according to your testimony, it would appear to me that the Government would not be taking a passive role. In fact, what would happen is the Government would be very much involved, but in a way which would supplement rather than distort the activity of the marketplace.

Is that a correct summation of what you have said?

Mr. VAUGHAN. Absolutely, Congressman. We would try to assist, and augment, but not order. We have no desire to mandate how the citizenry uses or supplies energy.

Mr. CORCORAN. Mr. Wendt, as I indicated, I was impressed by your comments on page 6 of your testimony with regard to this point. I think you make the point that you feel there will be a much more efficient utilization of our resources even during the period when there would be an emergency and we would be trying to work ourselves out of that difficulty.

How would the State Department coordinate at that point with the Office of Emergency Preparedness, whether in DOE or in the Department of Commerce?

Mr. **Wendt**. Well, our principal concern in the State Department would be to insure that the U.S. Government was able to meet effectively and promptly its obligations to the International Energy Agency to activate the emergency sharing system.

This assumes, of course, that we are talking now about a full-scale disruption which under the international energy program would mean a shortfall in excess of 7 percent. That would trigger a series of actions under the international energy program and we would work with the Department of Energy, not only the Office of Emergency Preparedness but also the Office of International Affairs, to assure our effective participation in the International Energy Agency's program for dealing with such a crisis.

We would also, of course, be working closely with the oil companies that have agreed to participate in that system on a voluntary basis. I do cover that point in my testimony. It is those companies that assure that oil will flow into the system in the event of a full-scale disruption. They participate, as I noted, on a voluntary basis.

We think it is, therefore, very important that we be able to fulfill our obligations under this system and that is one reason, of course, we are so concerned about the antitrust issue. But I do not want to address that issue right now.

Mr. **Corcoran**. I am glad you raised the antitrust defense because some of my colleagues and I are going to introduce legislation today that would extend that to July 1, 1983. I think we can address that. As a matter of fact, in the past, it has been a relatively noncontroversial matter, and I think we can address that separately.

But let me ask one other question here. The impression that has been given, I think, particularly to the debate on the strategic petroleum reserve, is that somehow or other the United States is alone in all of this new approach not only to following what is happening in the world oil market but also in terms of what our role would be in the event that a shortage occurred.

As I understand your testimony, it is not just the United States but all the members of the International Energy Agency that are taking this view that it should not be government managed and government managed distribution of allocation of resources—energy resources—in the event of a crisis, but in fact, having learned from the mistakes of the last 10 years, that all of the members—or certainly a large number of members—of the International Energy Agency are taking this new approach to minimizing and solving the consequence of a shortage should that occur.

Is that correct or not?

Mr. **Wendt**. Congressman, each member country in the IEA may have a somewhat different approach in terms of its domestic legislation to meeting its obligations under the IEA sharing system.

In the case of the United States, in the event of a full-scale disruption, we have a substantial amount of oil stocks. Part of those stocks are in the strategic petroleum reserve, but stocks in private hands are vastly in excess of what is in the strategic petroleum reserve. Other governments may have a different approach. They may not have a strategic petroleum reserve as such, but they might have stocks in private hands that under their legislation are subject to government control.

There is no uniformity of approach in how each government meets its obligations. The point is that under the commitment in the International Energy Program we meet our obligations. How we do it, really, is up to each government.

I think also we would have to distinguish between a full-scale disruption, 7 percent shortfall, and a minor disruption. There again the approach of the U.S. Government might be different from that of other governments. There are, it is no secret, some member states in the IEA who would prefer a more internationally coordinated approach to stocks in a minor shortfall.

The U.S. Government, on the other hand, believes that the free market is fully able to deal with the problems that may arise in the event of a minor shortfall.

All member states in the IEA do rely heavily on the oil companies to participate voluntarily in the emergency oil sharing system. I think that is probably the key to it. They are all interested, moreover, in efficient operation of the market and in removing impediments to market forces so that the companies can participate effectively in the system.

Mr. **Corcoran**. So, Mr. Wendt, when you said on page 6,

> IEA members have agreed that a system that preserves, as much as possible, the flexibility of oil companies to perform IEA-directed allocation of oil in the course of their own operations (with appropriate safeguards to prevent impairment of competition) will be more efficient than one under which governments attempt to assume direct control over oil movements themselves.

You are, as I understand it, referring to a change in approach on the part of the IEA in terms of what would be the response in the event of either a severe disruption, one in excess of 7 percent, or in the event of some minor shortage, are you not?

Mr. **Wendt**. No, I do not think so, Congressman. I do not think there is anything new here. This is a form of cooperation that we have had in the IEA all along. It does not represent a new approach as far as this Government is concerned.

Mr. **Sharp**. Mr. Vaughan, let me ask you, you listed some of the things that you are doing, and the one that I very strongly support was the rapid filling of the reserve last year. We obviously had some discussion on that in a previous hearing last week. You indicate the development of the public information or public relations plan to help people understand what the nature of the crisis is. When will that plan be completed?

Mr. **Vaughan**. I cannot give you at this moment, Congressman, a precise date. I will go back and consult with my staff and furnish for the record a date when that would be available.

Mr. **Sharp**. You would have no idea if it was next month or 2 years?

Mr. **Vaughan**. I think it would probably be a matter of a few months or so. I saw correspondence going out of the office on this subject this morning.

[The following response was received:]

The public education and communication plan, while well beyond the preliminary planning stage, will require extensive coordination and information development before completion. We have recently established a Task Force of DOE organizational elements to begin coordination of the responsibilities, data requirements, target groups and formats and are working toward a fully developed plan by Fall 1982.

Mr. **SHARP**. Second, you said there were various contingency plans, and I am not sure I understand what the nature of those contingency plans is because you have ruled out a whole range of possible activities by the Federal Government. Could you help me understand a little better your second point on what were the contingency plans that are in the process of being developed?

Mr. **VAUGHAN**. Well, first, we are developing a contingency plan for the electric power industry, for one kind of shortage. We are not simply limited to oil. We would have a response also for an oil shortage that affects a particular region of the country.

Mr. **SHARP**. In other words, how to wheel coal by wire.

Mr. **VAUGHAN**. That sort of thing, in the case of electricity. In the case of oil, if there is a local shortage, it seems obvious that we should not trigger a national response. That is what I meant by the term.

Mr. **SHARP**. If I understand, one of the cutbacks in the information is that we will no longer get the information regionally, at least on a weekly basis.

Mr. **EVERED**. We never have.

Mr. **SHARP**. You cannot tell what is happening in New England?

Mr. **EVERED**. To a limited degree.

Mr. **SHARP**. Under the requirements of the various acts we have, you cannot tell us? Maybe we could just cut out the budget.

Mr. **EVERED**. The Weekly Petroleum Status Report will continue to provide data on a PAD District basis. We had planned to extend the level of detail in the Weekly to the refinery district level, but with current budget stringencies, we would shelve those plans.

Mr. **SHARP**. Let me, if I could, Mr. Vaughan, continue on that particular proposition. But you rule out, then, there could not be an order to wheel electricity? I mean, if one electric utility is unwilling to come to terms on what the price would be, no orders will be issued in order to carry out a program of coal by wire?

Mr. **VAUGHAN**. Congressman, I think we have to deal with the distinction when we talk about public utilities which are, by nature and by law, regulated.

Mr. **SHARP**. They do not like to be ordered any more than anybody else.

Mr. **VAUGHAN**. I understand, but they are regulated monopolies and they are not the same thing as fully private companies. They are subject to the jurisdiction not only of their States, but also of the Federal Energy Regulatory Commission. And certainly, it would possibly be appropriate to order, after appropriate hearings and that sort of thing, coal by wire or oil solutions.

I do think there needs to be a distinction about utilities.

Mr. **SHARP**. Your next item, you have the Department of Defense, you are working out with them how to make sure that their contractors have oil supplies in order to fulfill the contractual needs, if I understand it correctly, and obviously, the defense requirements of the country. Is that correct?

**Mr. VAUGHAN.** That is our interest. The focus is on the need to use the Defense Production Act or to protect the national security.

**Mr. SHARP.** And issue orders there?

**Mr. VAUGHAN.** If that is required, although I must point out that we do not have to issue orders as a first course. I am proud that recently, when faced with that request, we managed to get the task accomplished voluntarily.

**Mr. SHARP.** Do you think the existence of the authority, even though you did not have to exercise it, might have been useful because it meant that the person cooperating was more cooperative, understanding what the backup situation was?

**Mr. VAUGHAN.** I guess in theory we certainly have to concede that.

**Mr. SHARP.** Well, I think you perhaps misunderstand the intention of the Standby Petroleum Allocation Act that you are recommending be vetoed. It does not direct you to issue orders, that is not to be the first line option, since many of us do not think it should be.

But let me ask you this. You are studying economic impacts of, I guess, various scenarios of crises—is that correct?

**Mr. VAUGHAN.** That is correct.

**Mr. SHARP.** When do you expect to have those studies completed?

**Mr. VAUGHAN.** That will be a continuing function, Congressman. I do not think that you ever really complete that sort of task. Somewhat like the military, you must continuously assess the situation and the possible impacts. I would expect us to issue reports from time to time as those contracts are submitted to us.

**Mr. SHARP.** But those reports will not just say this is a continuing problem? They come down to a conclusion as of a picture frame at that moment of what our understanding is?

**Mr. VAUGHAN.** They certainly should, yes. These are fairly standard contracts where the contractor has a particular goal to achieve, and will inform us about probable impacts under certain scenarios.

**Mr. SHARP.** Does one of the options being considered have something to do with something called price enhancement?

**Mr. VAUGHAN.** You will have to define for me what you mean by price enhancement.

**Mr. SHARP.** I thought this administration understood the word "enhancement" better than most. They talk about revenue enhancement. As I understand, it is not enlargement but raising of prices. The theory is that, in fact, the free market will not lead to the demand reduction that is necessary because price has to jump very rapidly. So the question is, do we have to shore up high prices, do we have to push prices higher. Both James Watt, in a memo to the President, and Ken Davis, your own Deputy Secretary testifying before this subcommittee, speak of using the Trade Expansion Act to impose import fees and thereby raise oil prices.

**Mr. VAUGHAN.** I assume that by price enhancement you mean an excise tax or import tariff that raises domestic prices above world oil prices. We have no study underway in my office that focuses specifically on that issue.

**Mr. SHARP.** I had been told that they were studying price enhancement.

Mr. **Vaughan**. I do not think we have such, and I am very mindful of the answer I have given you. I will go back and check to be sure.

Mr. **Sharp**. I would appreciate that, and we will double check our sources on that, as well. They come from the bowels of the Department, I understand.

[Testimony resumes on p. 219.]

[The documentation referred to follows:]

THE WHITE HOUSE
WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM: James G. Watt, Chairman Pro Tempore
CABINET COUNCIL ON NATURAL RESOURCES AND ENVIRONMENT

ISSUE: Should the Administration support enactment of some form of petroleum regulatory authority for essential emergency services, to replace the Emergency Petroleum Allocation Act (EPAA), which expires September 30?

## BACKGROUND

In the wake of the 1973 oil embargo, Congress enacted the EPAA, giving the President virtually complete control over the domestic petroleum market.

This authority was exercised through allocation and price controls, along with a number of special provisions sought by specific constituencies, such as farmers and small refiners. All such controls were abolished on January 28, 1981. The authority to re-impose such controls, which the President currently retains, will expire on September 30, 1981.

Also as a result of the embargo, the United States joined with twenty other free world countries in the International Energy Agency, committing itself to sharing oil supplies in the event of severe supply disruptions. There is authority in continuing law for the President to direct whatever actions are necessary to comply with our IEA obligations. There is a separate statute which allows a limited antitrust exemption so that oil companies may participate in this international agency's planning and operational programs. This exemption will also expire on September 30, but it is relatively uncontroversial, has been extended already on several occasions, and should be extended again, as an unrelated matter.

## DISCUSSION

From campaign pledges and general philosophy, there is no doubt that the Administration opposes government intervention in the energy markets generally. All Council participants agree that government controls exacerbate, rather than solve, most shortages; disagreement comes only as to whether, in a very extreme disruption, the market would adequately provide for a few essential services.

After September 30, there will be a number of emergency authorities which vary in application and triggering mechanism, such as the Defense Production Act, the Trade Expansion Act, the Emergency Energy Conservation Act, and others. The Administration will also have power over specific crude oil supplies, including the Strategic Petroleum

Reserve, and some oil from the Naval Petroleum Reserve, and royalty oil from federal lands.

The Justice Department has done a legal analysis and concluded that, without additional legislation, the President will have sufficient authority after the expiration of EPAA to meet our international obligations. To calm any remaining doubts on this, Justice could testify on its interpretation of EPCA, and we would seek confirmatory committee report language. However, Justice has concluded that there will not be sufficient authorities to duplicate the comprehensive price controls and allocation authority available under EPAA. There is debate as to whether remaining authorities could provide the best response to any future crisis.

Both House and Senate Committees have held hearings on this issue, and there is considerable pressure by various special interest groups for "protective" legislation upon expiration of EPAA. The Republican Chairman of the Senate Energy Committee has indicated that the United States cannot responsibly be dependent on anything less than full preparation for allocation after EPAA has expired, including appropriate legal authority and clear Administration commitments to take decisive federal action, if necessary. GOP leaders on the House Energy Subcommittee are not favorable to new allocation authority.

OPTION 1

Oppose any new legislation authorizing controls on petroleum markets. Indicate that any emergencies caused by oil supply interruptions would be met by primary reliance on the market to restore equilibrium, supplemented by other existing authorities.

Without new legislation, the Defense Production Act would allow for meeting defense needs, use of government-owned supplies, such as Strategic Petroleum Reserve, could meet some part of a general shortfall, or could be used to meet essential emergency needs, and the Trade Expansion Act would allow for quotas or tariffs on imports. To provide back-up for our IEA international sharing obligation, we would develop a plan for fair sharing among U.S. oil companies which the President could use if he deemed it necessary to meet our obligations.

In addition, general emergency preparedness operations in DOE and FEMA would continue to evaluate potential threats, and update plans for facilitating private and government response to them, including continuing evaluation of potentially useful legislation. Since the actual crisis that could occur in the future may be far different from that contemplated today, legislation based on today's thoughts may well be ineffective when the crisis occurs.

Advantages:

- Consistent with Administration opposition to federal regulation in energy markets.
- Avoids support of concept of legislation which could invite passage of unnecessarily broad authority.
- Prevents enactment of statutory authority which could be abused by a different Administration.
- Maximizes Presidential flexibility to meet unpredictable crises.
- Reduces disincentives to private stockpiling and other means of self-protection in an emergency.

Disadvantages:

- Existing authorities might not allow control of petroleum supplies if that were to be needed to prevent catastrophic consequences for certain users.
- Political pressure at the time of a crisis could be almost irresistible, and may result in passage of a more disruptive and inefficient law.
- Might be perceived by our allies as unwillingness to take measures necessary to deal with an emergency.
- Without Administration leadership for a very limited bill, Congress may pass far more extensive and onerous legislation, perhaps even extending EPAA.
- Without some federal legislation, states may be free to pass control laws of their own, unless pre-empted by federal action.

## OPTION 2

Propose legislation to grant the President authority to declare a severe petroleum shortage, and in such cases to direct petroleum supplies to meet "essential emergency needs." The proposal would not include explicit price control authority, but the President could order that sales be made at "non-discriminatory" prices. It would be anticipated that this authority would not be used except in situations far more severe than any we have so far experienced.

This authority would allow the President to direct supplies to meet the direct needs of farmers, police services, etc., in the event that such supplies were not available in the marketplace. It would not directly meet the problems of users who were unable to afford supplies due to the higher prices caused by a disruption.

Advantages:

- The legislation would be sufficiently broad and flexible that the President could restrict its use to only those cases where some action was clearly warranted to alleviate critical situations.
- Such authority would provide the President with an available tool to meet an emergency.
- The proposal might prevent Congressional enactment of broader, and more disruptive, legislation.
- Existence of standby legislation would prevent conflicting state legislation.
- Enactment of standby authority would provide public confidence that there could be an immediate response to a very severe shortage.

Disadvantages:

- Use of such authority could worsen any crisis by disrupting market adjustments.
- Any standby legislation might quickly become obsolete, necessitating repeated amendments.
- Such authority could be abused by a different Administration.
- Existence of such authority could distort investment and private stockpiling decisions.
- The existence of such legislation would create pressure for its use in advance of government intervention being wise.
- Requesting such authority could be considered a retreat from the Administration's support for deregulation.

RECOMMENDATION:

The preponderance of the Cabinet Council discussion favored Option 1.

Interior, Transportation, Commerce, OMB, and CEA specifically recommend Option 1.

Agriculture recommends Option 1, but notes that if any measures for allocation were undertaken, Agriculture should have top priority.

Energy and Justice specifically recommend Option 2.

# STATEMENT OF W. KENNETH DAVIS, DEPUTY SECRETARY, DEPARTMENT OF ENERGY BEFORE THE SUBCOMMITTEE ON FOSSIL AND SYNTHETIC FUELS, JULY 28, 1981

Mr. Chairman and Members of the Subcommittee. I am pleased to appear before you today to discuss the Administration's position on standby oil emergency preparedness authorities after the expiration of the Emergency Petroleum Allocation Act (EPAA).

Last week Secretary Edwards submitted to this Committee a paper on Domestic and International Energy Emergency Preparedness which I would like to submit for the record. The paper provides an analysis of the alternatives available to meet a supply interruption.

For the reasons discussed in that paper and that I will summarize later in my testimony, the Administration opposes the enactment of new emergency price control and allocation legislation and believes reliance on market mechanisms, coupled with adequate public and private stocks and with the other existing emergency authorties, is adequate to deal with a future energy supply emergency.

This does not however mean that this Department or the Administration plan to sit idly by and wait unprepared for the next energy emergency. The Department has begun to review those existing authorities and the actions necessary to initiate such measures as emergency increases in domestic energy production, powerwheeling, and short term fuel switching. As part of this energy emergency contingency planning we will be working with all sectors of the energy producing and consuming industry as well as state and local governments to ensure that in the event of a future energy emergency both the private and public response measures are cooordinated and effective.

The Federal Government's proper role in energy during the years ahead is to establish sound, stable public policies which will encourage individuals and firms in the private sector to produce and use energy resources efficiently. The President's action to end oil price and allocation controls and to dismantle the burdensome regulatory apparatus associated with those controls was a major step in implementing an energy policy focused on market realities. The challenge ahead is to provide a healthy economy and public environment that enables our citizens, businesses, and State and local governments to make rational energy production and consumption decisions -- decisions that reflect the true value, in every sense, of all the Nation's resources.

Past U.S. energy policy relied heavily on Federal intervention, and attempted unsuccessfully to protect U.S. consumers from the reality of higher world oil prices. Domestic price and allocation controls, which were in place on both crude oil and oil products when global prices leaped, led to gasoline lines and supply uncertainties. These exceedingly complex, confusing and inflexible regulations seriously hampered the ability of the marketplace to respond to short-term problems and actually contributed to the supply shortage.

I do not believe that subjecting ourselves again to even the possibility of a burdensome, EPAA-type program is in the national interest.

However, the continued threat of severe supply disruptions dictates that the United States take steps to ensure our Nation's energy security. This can be accomplished by:

- reliance on the market mechanisms
- development of SPR
- continued participation in the International Energy Agreement

Relying on market forces for the development of adequate levels of private petroleum stocks, combined with SPR fill, is the most effective measure available for reducing shortfalls in petroleum supplies and the associated economic losses and national security threats. The existence of government price control and allocation programs discourages petroleum users, refiners, and distributors from building and holding private stocks because:

- they believe these stocks will be allocated away;
- they fear government price controls will prevent them from realizing inventory profits if the price goes up in a shortage; and
- the existence of government relief programs leads them to believe that they need not take care of themselves because the government will do it.

The SPR now contains over 170 million barrels, and approximately an additional 30 million barrels will be added by the end of this fiscal year. With 200 million barrels in the SPR and the large volume of stocks held by private firms the U.S. will have substantial protection against supply disruptions. The Administration is committed to increasing this protection as rapidly as feasible and will press ahead with capacity development and oil acquisition for the 750 million barrel reserve.

With the expiration of the EPAA ample authority will remain to deal with the effects of a major supply interruption. The President now has, and will continue to have, authority to:

- drawdown SPR oil;
- assure that national security needs are met by directing petroleum suppliers to furnish fuel for national defense needs;
- impose quotas or fees on imports of crude oil and petroleum products in order to limit or discourage consumption; and
- temporarily waive regulatory requirements affecting domestic energy production and use.

An additional critical component of this country's ability to respond to an oil supply interruption is our commitment to the International Energy Program (IEP) and participation in its oil sharing system. There is an international dimension to our problem of oil vulnerability. Damage to other free world economies inevitably affects us too.

This emergency sharing system has been designed to operate primarily through voluntary oil company supply actions. The possiblity of mandatory government intervention, in the event the voluntary system fails, provides a considerable incentive for U.S. companies to make the sharing system work. Voluntary international oil movements are preferred because they are less intrusive, maximize reliance on the market, and avoid having government direct the movement of cargo volumes. They also take advantage of the oil industry's expertise, and its ability to shuffle oil movements smoothly among destinations at the least cost.

The President, if he deems it necessary, may take a number of different actions to foster voluntary company supply actions to meet U.S. IEP obligations, including limited domestic allocation or the sale of oil from the SPR; he also can order the allocation of oil internationally if that proves to be necessary to meet IEP obligations. The Department of Justice has reviewed the available statutory authorities and concluded that they are adequate for these purposes.

The Administration is convinced that the welfare and interests of the American people will be best served if the U.S. Government follows a policy of making sure that the Nation has adequate insurance in advance in the form of petroleum stocks to ameliorate the effects of major oil supply disruptions and, in the event of a disruption, of allowing the market to do the job it does best -- allocating scarce resources efficiently and effectively among competing demands. It is essential that we proceed with the development of the SPR as rapidly as feasible and also ensure that the private sector has full market incentives for self-insurance and that institutional barriers to endurance and flexibility in the economy, such as standby allocation and price control authorities, are removed.

In conclusion, I would like to state that we believe that reliance on the market will ensure that the adverse effects of oil supply disruptions are minimized and that available supplies are used most efficiently and effectively. Therefore the Administration is strongly opposed to enactment of EPAA type authorites to deal with supply interruptions.

Mr. Chairman, that concludes my prepared statement, I will be happy to answer any of your questions.

Mr. **Sharp**. Let me ask about surge capacity. You said one option would be surge capacity from the naval petroleum reserve. You are studying that option, I guess, is that correct? What is the status of that option?

Mr. **Vaughan**. That optional use of surge capacity from the naval petroelum reserve is a matter that we can do tomorrow morning if we need to.

Mr. **Sharp**. Where is the surge capacity?

Mr. **Vaughan**. The surge capacity exists in moving from the maximum efficient rate of production to the maximum rate of production out of that reserve.

Mr. **Sharp**. Out of our fields?

Mr. **Vaughan**. Yes.

Mr. **Sharp**. You may not have the figure off the top of your head, but give me an estimate.

Mr. **Vaughan**. You can roughly boost it 10 percent, on that order, for a period of some months.

Mr. **Sharp**. I noticed you responded to my colleague that that was certainly one thing that was clearly available.

Mr. **Vaughan**. That can be done throughout the industry. Domestically, too, Congressman, if certain restrictions that States impose are lifted. We in the Federal Government facing a national shortage would be urging the States of X, Y, and Z to lift temporarily those production restrictions.

Mr. **Sharp**. But you would not order it? You would just ask the State of Texas if it would be willing to do that?

Mr. **Vaughan**. We are not contemplating ordering it, Congressman.

Mr. **Sharp**. Well, you did have the authority under EPAA. Do you still have the authority to order that possibility?

Mr. **Vaughan**. I do not believe we now have the authority to order the State of Texas to change its rules.

Mr. **Sharp**. You would expect the oil industry and the State of Texas Commission to be responsive?

Mr. **Vaughan**. Yes; I do not think that would be a problem.

Mr. **Sharp**. Let me ask you this. I guess you obviously do not think so, but the question of continued production of the naval petroleum reserve arises. If you are serious about surge capacity we could have dropped that back to 23,000 or whatever the figure was in the testimony, and had a genuine surge capacity there. I mean, 10 percent, if you got everybody in this country up 10 percent, certainly that is a nice size. But when the Government controls, it does not have to order anybody, it just makes a decision itself to control, that we could have maintained that field at a much lesser rate of production and had a good, nice piece of surge capacity there, could we not, on the west coast where we have no easy access to the strategic petroleum reserve?

Mr. **Vaughan**. Let me answer that question from two points of view, Congressman. In most scenario planning for oil emergencies internationally, the west coast is not generally considered to be in serious jeopardy. That is not to say there is no scenario, but the ones of most concern do not involve a west coast shortage.

Mr. **Sharp**. Terrorism along the Alaskan pipeline might alter that situation.

Mr. **Vaughan**. Yes; they certainly could. At the time we were testifying on the naval petroleum reserve. If you recall, we looked at surge quite carefully. And while theoretically it is possible to shut in a reserve and then talk about the enhanced response, surge capacity— I believe our testimony as backed up by the oil industry and several others—was that it would take a long time to come back on line.

So in substance, what we were saying, is that the surge capacity is mathematical and illusory. When you lose that capability of staff to operate those facilities—and I am more convinced of that since that testimony, Congressman, because I have been to that Elk Hills facility and looked at the equipment—the idea that we would mothball that equipment and then bring it back on line rapidly is very illusory and I am more firm in my opinion than I was at the time when I testified.

Mr. **Sharp**. Well, the Navy people testifying who run the thing, I think, were a little more optimistic than you are by some degree. They obviously are trying to maintain the field in a pretty substantial way. And perhaps this is a difficult one to judge. You may be correct on that. I just find it budgetarywise smart that we kept the thing going. I find it a little harder to argue—when the Government increasingly throws away the arrows in its quiver—that it will not say it wanted some control over it. But maybe that is wrong thinking on my part.

Let me ask you, if I might, if the State of California and the State of Massachusetts and the State of New York and some of the other States foresee a crisis coming down and they start allocating and price controlling the oil in their area, and that potentially can spill over into other States obviously—I understand, with you, how quickly the allocation system can compound the situation—what will the Department and the President do about that? Or is that just Jerry Brown's problem?

Mr. **Vaughan**. No; it is not Joe Brown's problem.

Mr. **Sharp**. Jerry Brown.

Mr. **Vaughan**. If that sort of situation develops and is seriously impacting the entire Nation, it seems to me there is significant authority under interstate commerce considerations for the Federal Government to move if it so desires.

Mr. **Sharp**. In other words, you take the State of California to court?

Mr. **Vaughan**. Possibly.

Mr. **Sharp**. Possibly? What other authority do you have?

Mr. **Vaughan**. It would seem to me that a President has considerable persuasive authority that we are not likely to miss. A President—and for that matter, this Congress—about a State operating in such a manner that it is jeopardizing the interest of its neighboring States. So I think you have two——

Mr. **Sharp**. I hope your are correct, and this President, I know, has great persuasive powers on the tube. But I have to tell you, the last several Presidents have had great difficulty in an oil crisis of convincing anybody of doing a damned thing. In fact, they found themselves to be the target of most of the criticism, not the great persuader people were standing around waiting to listen to. Maybe this one will be magically different, and I certainly hope you are correct about that.

I do not mean to lecture you. You obviously have your own opinion on that judgment as to how quickly GM responds when it gets a request from the President, and how Jerry Brown would respond to a question from President Reagan. I just do not have that great a faith in the idea that the President could pursuade the Governors. That is not to be critical of the President.

I think you have a real problem on your hands. That is what the oil industry tells us. They have testified here. They are very concerned about a crisis, that if we get into a crisis in the State of Louisiana, Texas, Indiana, Massachusetts, we will have a hell of a time getting oil into any reasonable distribution in this country. Maybe the courts will respond to your petitions fast enough to be able to prevent CBS from broadcasting what California is doing to Idaho. I doubt if Senator McClure will be willing to wait for that, but I suspect that what we will find is that people will be damned upset, and I would like to know what this administration intends to do about it.

Mr. **Vaughan**. Well, I have indicated to you, Congressman, that the President has persuasive powers that he could use. The President also has powers of interstate commerce; he can use those, in serial or together.

Mr. **Sharp**. And if he will reject your advice, he will have the power to directly and immediately do something about it, in the legislation we are giving him, to prevent government intervention in the marketplace, which I understand to be the highest priority in this administration. Am I wrong about that?

Mr. **Vaughan**. It certainly is a very high priority of this administration to prevent government intervention in the marketplace.

Mr. **Sharp**. And very clearly where the most degree of government intervention is clearly coming from is in State legislatures, in State capitals across this country, at the State level, is that not correct? There is a far greater threat of government intervention from the State level today than there is from the Federal level? Am I not right about that?

Mr. **Vaughan**. I do not think that is correct, sir.

Mr. **Sharp**. My own Republican legislature, very conservative, my own Republican Governor, very conservative, very close to the ideology you express here, passed overwhelming emergency powers to the Governor to do any damn thing he pleased if there is a crisis. He has already denounced his own ideology on natural gas decontrol and is now opposed to the administration doing anything about that because he has learned what it is to deal with an economic crisis in our State.

I just do not see how—and again, pardon me for being upset, but I just think I must have lived in a different world, I guess, than you have. Not that I think that the Government has to act on all things; the Government has to be ready to stop actions. And one of the ways to stop it is to sign this bill into law. Well, excuse me——

Mr. **Vaughan**. Well, we just simply do not agree.

Mr. **Sharp**. I understand that. Do you plan to be around? Is it your intent to stay with this administration through this term?

Mr. VAUGHAN. I came with the expectation of serving this President at his pleasure for as long as that pleasure exists.

Mr. SHARP. Well, I will not ask you where the pleasure lies at this point.

We are going to have a group of people testifying, former employees of the Department of Energy, that suffered the wrath of Congress, suffered the wrath of the news media, and of various Presidents, and who advised us, in many instances, that we should not do so much in the marketplace. They are not so altogether out of kilter, if I read your expressions correctly about some of concerns about the Government and the programs that they had to carry out.

But almost everybody who has been through this at a time of crisis has gotten a burning, searing education on the irrationalities and rationalities of human beings and how difficult it is to maintain political and social order in this country. I just think that that is something that ought to be under consideration. Hopefully, this President's magic on television can do that.

I would suggest to you that this administration has a profound interest in maintaining that President's capacity to do that, and nothing can erode it, like setting yourselves up for a situation in which you have clearly taken on the responsibility of not being prepared, in the eyes of many, many people. You may not see it that way, and maybe you will be able to get your message across, but I would suggest to you that that is not what the testimony indicated that was coming back from Europe yesterday. That is not what the testimony is increasingly around this country.

Now, I hope that we never get anything that requires more than the strategic petroleum reserve, but perhaps our impressions are wrong. Perhaps you are doing all the right things, but I do not see any dates on the kinds of things you are talking about doing.

If we have a crisis in a couple of weeks, what kind of public relations program will you have ready? They are going to be asking questions, and it will be very strong market people who will be asking some of the toughest, meanest questions of all. And if you think it all comes from left wing, liberal Democrats I just think someone is missing the point.

You obviously want the IEA antitrust defense to go forward, is that correct? The antitrust defense?

Mr. VAUGHAN. I have no problem with that. That is fine.

Mr. SHARP. The administration wishes that, do they not?

Mr. VAUGHAN. As I understand it, we do.

Mr. SHARP. I think that has been an integral part of it. That will be vetoed as well. Now there is no question—my colleague says it has not been controversial in the past. That is correct. It has not been. It will be controversial. One Senator has already announced how he intends to tie up things, and I suspect people around the country expect us to do something about the budget if we can. I cannot lay this on the administration. Congress has got that one in its lap and has to figure out how to do it. But I just think perhaps you are passing up the chance.

I understand one of the arguments circulating about the administration's bill is well, we need another show of muscle, so for political reasons we will veto this as a show of muscle that somehow, we can win an override in Congress. That might be. I do not know. I suspect if you invest enough political energy and effort, you might be able to round up enough votes in the House of Representatives to do that. But I think you will also announce very clearly to the public, very clearly in a way that is difficult to get the public's attention, exactly what position you have taken.

You may feel comfortable with that, but I think other political leaders in the White House that are going to have to deal with some of these issues and some continuing issues, are not going to feel very comfortable with it. That is obviously not your judgment to make; that is theirs. Excuse me for getting exercised here, since it is not necessarily your desire to be here. I do not mean to lecture you, but I obviously am.

Let me ask you, is there any indication that stocks are rising in this country?

Mr. VAUGHAN. Private stocks at this time, I believe, Congressman, are below normal levels by a small amount.

Mr. SHARP. And which direction are they headed?

Mr. VAUGHAN. They are headed generally downward.

Mr. SHARP. Why are they headed downward?

Mr. VAUGHAN. I think a reflection of high interest cost and the general economic malaise the country is currently undergoing.

Mr. SHARP. See, the difficulty I have—well, let me ask you this. How would the bill that we would sign into law further exacerbate that?

Mr. VAUGHAN. As far as stocks are concerned, I believe that any bill that calls for a price and allocation plan, be it standby or otherwise, sitting on the shelf to be implemented during a severe crisis, will send signals to those who would normally stock. And I think it would exacerbate the signal not to stock when interest rates are high and economics are tough to live with, because Uncle Sam may seize those stocks either directly, as it did in the past, or indirectly, as it did in the past, through denying a company access to the allocation system as long as it has a private stock.

Mr. SHARP. And you do not feel that the end user provisions in this bill have any meaning?

Mr. VAUGHAN. I'm sorry. I do not understand your question.

Mr. SHARP. Are you familiar with the provisions in the act with respect to the end users, the protection of the stock?

Mr. VAUGHAN. Yes, I know that there is such a provision, but it seems that those who stockpile in huge quantities are oil companies, who have no such protection, as I understand it.

Mr. SHARP. And in fact when the bill expired, ever since the bill expired, their stocks have declined for quite rational economic reasons. I am not criticizing the company. If I was in that business, the reasonable decisions one has to make in terms of cost and whatnot suggest a decline in stocks. But those individual rational decisions do not necessarily add up to what is in the national interest.

I mean, I just think you have been putting so much weight on this one provision, I think the evidence is overwhelming that that is not what is dictating circumstances whatsoever. I think the economics of it are going to suggest that they are not going to stockpile at various times and right now is one of them, and we are headed right back to the situation we had in 1978 where what happened was the stocks got to a very low level and then when the crisis came, we did not need much of a crisis at all to trigger a shootup in prices and things of that sort.

I do not know that there are extraordinary steps you can take to prevent that, but I really think that you belabor the legislation as the cause of all this.

Mr. VAUGHAN. Let me say, Congressman, during the Iranian situation, and its precursor, the Government moved in with its price and allocation controls and we triggered our current malaise, in part because we did not have a shortage. No day during the Iranian aftermath was this country short of oil.

That is shown by GAO reports, Congressional Budget Office reports and DOE's own reports. The allocation and price system exacerbated the situation rather than helping it.

Mr. SHARP. I do not have any difficulty with that proposition. I think you completely misunderstand what many in the Senate and the House have been trying to accomplish with this legislation. It is not to bring in the reentry of that entire system. Maybe that is what you see.

Mr. VAUGHAN. I see it, sir, as just being a little bit pregnant. You are not capable of being that.

Mr. SHARP. When a crisis occurs, the demands on this committee to act will become enormous and what people will vote for then will not be discretionary powers to the President, because he has already rejected even having any powers at all.

What it will be is a whole series of direct orders. That may be very unfortunate for all of us concerned. You may say, well, that is your responsibility, Congressman. You are not wrong about that. But the difficulty is, the end result will be we will be operating like the oil companies individually operate and that is not a particularly healthy thing for this country.

I think politically we are wiser in this country—and I mean that in the best political sense—whereby we make decisions collectively in order to stave off these kinds of situations that we get ourselves into. I am talking about the political situation we get ourselves into by having made some of the decisions while the passions are low and the stocks are high.

But we can wait until the stocks are low, and I can assure you the passions will be at an alltime high and you will wish that you weren't sitting down there—not because of me. I am pretty mild and calm. It will be your Members on your own side of the aisle who will be desperate to prove that they took action to prepare this country, and they will be looking for a scapegoat and my colleagues that are going to testify got to have that pleasure on the other side of the aisle the other time around when they found their biggest enemies were from their own political supporters, because people were running for cover.

That is not an elevating political situation and it does not bring out the best in any of us. But I think we are wiser to try to stave that off.

Well, I am at it again. I know my colleague wants desperately—he's itching—

I don't know if I can get myself back to a few other questions here at the moment.

What is the status of the fair-sharing program to carry out IEA participation in possible allocation by the international oil companies?

Mr. **Vaughan**. I believe Mr. Wendt testified on that, if I recall correctly. The status is that our oil companies are participating in the international program voluntarily and we are looking at how we would share the burden or how companies could share the burden if we have to meet our IEA obligations.

Mr. **Sharp**. Is that the State Department's responsibility to coordinate that fair-sharing arrangement or program, or is that the oil companies' responsibility itself, or is that the Department of Energy's responsibility? Who has responsibility for that, Mr. Wendt?

Mr. **Wendt**. Mr. Chairman, I believe it is the responsibility of the Department of Energy and, in fact, it is Assistant Secretary Vaughan's area of the Department of Energy that has this responsibility. If I understand correctly, they are working on developing a fair-sharing system. We think such a system is very important in order to encourage our companies to participate on a voluntary basis in the IEA allocation system.

The problem is that although they have indicated that they are willing to do so, they have obligations to supply oil domestically and if they are going to reallocate that oil in a full-scale disruption, they want it to be on a fair basis. So we consider it is very important—but perhaps Assistant Secretary Vaughan can tell us more.

I believe there is legislative authority for us to go ahead and develop such a system, the Energy Policy and Conservation Act.

Mr. **Thomas**. Mr. Chairman, I will be happy to respond to the questions on that. We do have the authority under 251 to respond in this particular area. I personally have had a number of conversations with the principal officials of major oil companies in the United States who participate in the industry advisory board of the IEA on this particular subject.

One of the fundamental questions that they have posed to me, and to others in the Department, is what is the pricing scheme under which such fair-sharing will take place. Therefore, if we have ships at sea with oil in them, we identify a particular member of the IEA who has a serious problem arising in terms of availability of oil at that point. Can we divert a cargo from company A which can make landfall in that particular area, perhaps in a week, in anticipation of another ship, can we swap these cargoes off on the high seas to take care of immediate requirements in one country where we may have a little bit more time with respect to another country's requirements?

That, I think, we can do very comfortably. This can be done in terms of the mechanics of making the shifts on the high seas in collaboration with the companies and in close consultation with the officials of the International Energy Agency.

The problem is the fundamental one I go back to of can that company be relatively assured—nothing is certain in this world, I think—but can we be relatively assured that by shifting that cargo they are going to be able to get the same price for it in country A as they would have gotten in country B?

One of the concerns that Mr. Vaughan has mentioned to you here I would want to express my concern about as well. That is, to the extent the companies believe they will be able to draw from the strategic reserve of the United States or that the government will make internal allocations within the United States to compensate them, at least in terms of the supply they are diverting to another country, becomes a very, very difficult and complex process and clearly brings us into the market mechanisms as well. This is one of the things we would be very loathe to do, I think you would certainly appreciate in this Administration. So one of the messages that we are still endeavoring to get across to the companies and to the participating companies in the IEA, is that the free market has to be operative under these circumstances and these companies must be able to be relatively assured that they can provide the supply but at a competitive price.

The first criteria, of course, is to assure that countries have requisite supplies so that their own economies or, for that matter, security interests, are not seriously constrained by the shortfalls that would occur under these circumstances.

Ulf Lantzke responded to you that countries have different schemes internally as to how they will respond to a given emergency in a shortfall. To the extent certain countries would impose pricing control mechanisms or schemes, this could seriously disadvantage certain companies who would otherwise be perfectly prepared to divert stocks on the high seas to those countries' use.

Therefore, this is a kind of political, but also very pragmatic economic question that we simply have not come fully to grips with, I think, within the IEA or within our own fair-sharing schemes.

How do we actually implement it under those circumstances? We are addressing it. We are aware of the concerns. We are dealing with our companies on this subject.

Mr. CORCORAN. Mr. Chairman, may I ask a question?

Mr. SHARP. Yes.

Mr. CORCORAN. Mr. Thomas, you touched on a point I had raised earlier, that is, the behavior of the other IEA members in the event of a shortage. What has been our experience in the past in that regard? Have they imposed the same kind of price controls and allocation control programs that we used during the 1979 problem and, of course, during the major shortfall as a result of the Yom Kippur war?

Mr. THOMAS. The answer is yes, sir.

Mr. CORCORAN. What did they do?

Mr. THOMAS. They have had them all. Some of them still have them in place today. As a result of that we have a full spectrum. We have standby controls or controls that in fact are still present.

For example, we have certain countries in particular that have significant controls at this point on the domestic price of oil. Clearly, under the circumstances that government is heavily subsidizing the present oil-gasoline requirements within that particular country.

If they do not remove those kinds of controls and let that price float free, as it were, I cannot envision a country moving oil to them, stocks from the high seas, unless they can be assured by that government—not by the marketplace in that country, not by the companies in that country but by that government—that they are going to receive an equal or fair return on that cargo from what they would get in a country which has no such controlled price.

So at this point within the membership of the IEA it still runs a full gamut, although I am happy to report that I think the results of our earlier experiences have brought far and away the majority of the members around to the view that we have to keep the free market operative under these circumstances or else they may well not be able to get supplies at any price.

Mr. CORCORAN. So by implication are you saying that if we were to have these standby allocation and pricing controls that we would be in a weaker position in terms of attracting oil products during a shortage?

Mr. THOMAS. I would share, unfortunately, Mr. Chairman, my colleague Mr. Vaughan's view on this subject. I think it does weaken us under the circumstances.

My discussions with several of the major oil companies' principals in this regard, a very frank discussion, would lead me to believe that they would be looking to a significant degree on reliance on our stockpiles, for example, allocation schemes or predetermined schemes for assuring them supplies when they divert supplies elsewhere to other countries.

I think our best course of action, especially with the multinational oil companies—particularly with them—is to say keep your stocks up under all circumstances. Keep the stocks up. Don't let them drop here because you do not have a guarantee of drawdown from the strategic reserve in this country.

Mr. SHARP. Again, there is nothing positive, obviously, that we can do to keep their stock up. There is potential government action to declining stocks, but the truth is that stocks are going down because it is a rational economic decision for an oil company to make. Am I wrong about that?

Mr. THOMAS. Possibly, Mr. Chairman. I am not so sure that that is necessarily the case. May I add one more additional element, perhaps, to the discussions that are taking place this morning?

That happens to be the question of viable current information at the time shortfalls occur. I think in our review of the circumstances and looking back at the Iranian revolution period and the Iranian-Iraq war, one of the things that caused those prices to shoot up as dramatically as they did was an extremely poor information base on which to work, particularly by the independents, who are not necessarily known—no derogation intended—for being completely mindful of the international situation at all times.

Their job is to run a small refinery in most cases and try to do the best they can, as opposed to the majors who are across the board in all international activities and follow them closely.

I would suggest, Mr. Chairman, therefore, that under these circumstances that one of the principal functions the U.S. Government can and should perform along with other governments and in collaboration with the IEA, is to provide the most current accurate information on the status of world stocks and world supplies as we possibly can.

To the extent that there may be military involvements present as well under the circumstances, I think we have a significant obligation to assure that all of the interested parties know the status of that military action to the best security and other matters will permit us, to bring to their attention at an equal time information commonly available to all.

That brings us into a few problems with antitrust, but I think we can get over those as well.

Let me come to your point. That is, that issue really has to do with what is the self-interest of these oil companies. I think Mr. Vaughan has touched on that, but I would like to elaborate. That is, their principal responsibilities early on as to their customers. They have a major responsibility there and I see no indications that they would in any way step back from those responsibilities.

They monitor the world situation very, very closely. They are watching affairs in Iraq, Iran, Egypt, Israel, Palestine, Lebanon, and certainly Saudi Arabia. If they see the signals coming that there may be a situation developing there, I have every reason to believe that they will start to take corrective actions to pull those stocks back up.

The question is how high do they build those stocks, particularly in one element not mentioned today, the true economic question. Prices are declining on the world oil market. Do you want to buy today in stocks when you can look around the corner tomorrow and see cheaper stocks available to you? So obviously in a rational economic mode you are going to hold off making those investments to the maximum extent. We are talking very closely with the oil companies, because they are highly sensitive to that question.

When do they start restocking? Is that going to come? I can't believe it is not going to come. Probably some time this year they are going to have to start restocking. The question is to make the best economic decision in consonance with the world situation politically as they view it progressing through this year.

Mr. **Vaughan**. Congressman, a factor that is very important about stocks, because I told you they are declining, I think, is to look at them as an index against demand. The demand here in this country is down. It is down significantly. A legitimate question of oil companies is, how much of that is permanent? How much is tied to the economy? When you combine those concerns with their international intelligence and with the declining world prices that Mr. Thomas rather well described, I think it is not surprising that they are drawing down stocks. But I am confident their self-interests will insure that they rebuild those stocks when they need to.

Mr. **Sharp**. The only thing that worries me is perhaps before that self-interest will turn that around there is a revolution is Saudi Arabia at the key moment. In a sense, that is what happened in Iran. The revolution came at a very inappropriate time for us, because the stocks of the international companies were down, and no one's persuasive powers seemed to affect the ayatollah on that score.

That is the thing that worries me. I certainly agree with your comments and Mr. Thomas' comments with respect to one of the most valuable functions you can perform. When I alluded to the question of political leadership and social order, having the best possible information to help quell panic, to help prevent people from making foolish purchases in the stock market or here at home, topping of their tanks, all of which, the panic of that can have certainly a temporary and devastating effect on prices and compound the situation, aside from any allocation program the Government might engage in.

I guess what worries some of us, is the fact that these budget cuts damage our ability to do that. OMB has overruled a whole bunch of things. We are now seeking to replace our authority by bipartisan legislation you have said you will veto to make sure we are operating on the best possible data base. Maybe we are wrong. Maybe you can have it all that way.

But one of the things in the letter of February 23 that he indicated was, and perhaps I don't understand the meaning of this, one sentence of it says, "and the ability to prepare quick response analyses would be reduced." Now, I don't know if those quick response analyses refers to questions that come from Congress, and we would like a 7-day turnaround, or whatever it is, or quick responses to changes in the marketplace, that the President may have to address at a press conference.

When he is asked, "for Pete's sake, Mr. President, people are getting riled up in New England, what do you know about this," I suspect the White House will call your Department for the answer. Mr. Evered, I don't know if you wish to respond, since I raised that.

Mr. **Evered**. To clarify that a bit, basically the answer is the former. We will not be able to respond quickly to all requests for analyses on specific topics. Certainly, for the ones of high import and priority we will do our best to continue our quick responsiveness. In the past, we have prided ourselves in responding quickly to all requests from the executive branch and Congress, but frankly, with the need to reduce budget spending, nobody can continue that.

Mr. **Corcoran**. I wonder if an impact analysis on Indiana would be a high priority or a low priority?

Mr. **Sharp**. Probably low at this point.

Well, Mr. Thomas, I guess I wasn't clear. You say you are working on some kind of a fair sharing program. Is it your intent that there will be things that are written down that give some—that everybody understands what the rules are going to be? I realize you cannot cover every situation, but is that not what the companies are looking for as to whether or not they will be able and willing to follow IEA allocation? Is there a time table on this? Is there a point at which there are hopes of a general understanding as to how that will be handled?

Mr. **Thomas**. I have hopes that there will be a time when there will be general understanding of it, but no, there is no timeframe established for it.

We have in front of us a question of how to deal with fair sharing, Mr. Chairman. It is a commitment, I think, that we absolutely have with the IEA. One of our principal responsibilities in here, as I see it, and certainly Mr. Vaughan is a key player on the domestic side, is essentially how do we assure, as I said before, how do we assure our companies to the extent that we can assure them that by diverting cargoes from the U.S. market where the market is open and they are assured of getting their price here or the price that is advertised here, and that they divert that cargo to a country which has a control and a price scheme there, and therefore there is a substantial reduction in the funds that they would take in as a result of that? How can they be assured that by diverting that cargo essentially equal market forces range in all of the affected countries? We cannot assure them of that, because this goes right to the heart of the policies that each country domestically can have.

So, one of our functions the Department of State has clearly indicated here, how do we meet our obligations internationally when in turn the actions taken by some of the member states of the IEA are not compatible? And they simply are not compatible. Even if we went to full allocation and price schemes tomorrow in the event of a shortfall there is no insurance that all other countries in IEA would do likewise, which means that the cargoes would move in the great preponderance of those other countries as well.

So, this is one of those things which, for better or for worse, keeps the career Foreign Service officers and the bureaucracy busy for a long time.

Mr. **Sharp**. It really sounds to me like the IEA is finished, that there simply is no intent to put together any kind of fair-sharing program that requires apparently commitments either out of SPRO or commitments to allocate, and those you are absolutely opposed to.

So under those circumstances, the truth is, we have no intention of taking action that would help fulfill the sharing schemes that would be finished when the President vetos the IEA antitrust exemption, because it means that we are just going to tell private companies, you are on your own, and as far as we are concerned, we are not going to do anything. What else can the Europeans assume from all of this?

Mr. **Thomas**. Mr. Chairman, if we may, let's not be so broad as to encompass all of the members of the IEA in this. There are a number of governments in the IEA who feel precisely the way the United States does. Their programs in terms of market considerations in the absence of allocation schemes is quite in conformance with the programs that are being proposed by this administration. So we aren't standing alone in this game. But it does mean——

Mr. **Sharp**. But IEA is, for all intents and purposes, finished.

Mr. **Thomas**. Not at all, sir.

Mr. **Sharp**. It means there are a number that are not going to play the game.

Mr. **Thomas**. We have a number of players in this game and, as you well know, in the Congress it is sometimes difficult to get everybody to sing the same song off the same sheet of music, and in fact you are not often terribly successful in accomplishing that—not pointing to the Congress, of course.

Looking at the IEA, exactly the same is true here. We strive for consensus in every case. Frequently we have to go to the lowest common denominator in the negotiations in a forum where we are dealing with one of the most serious problems, and I think we fully recognize that, that these governments face in terms of a commodity on which they are absolutely dependent. Under these circumstances, I have been impressed in my time in participation with the IEA by the real ability of these principals of government to sit down and really talk seriously about the issues and endeavor to achieve consensus and agreement on how to proceed. It does not happen overnight. There is a lot of compromise involved. We are in these discussions right now in this area. We have support for our view. There are several other multi-national companies not headquartered on U.S. shores which have similar concerns as opposed to national oil companies in here as well.

So, I would suggest, sir, that this is one where to suggest that the IEA was finished would be rather premature. It is still an excellent forum for these discussions to take place, and I am rather optimistic that this is another we will thrash out, hopefully in adequate time.

Mr. SHARP. Mr. Wendt, did you wish to comment?

Mr. WENDT. Thank you, Mr. Chairman.

What I am about to say may be a bit unusual, but I have confidence that DOE will respond on the question of a fair-sharing system. I happened to bring with me an excerpt from a July 1981, DOE emergency preparedness report in which they said that they planned to develop a contingency plan for a limited crude oil fair-sharing system to backstop voluntary offers for activation should the President deem it necessary to meet our IEA obligations. [See p. 135]

I am quite confident that our colleagues will do that. It is obviously not a simple matter. Moreover, we do not know for sure that American companies would refuse to participate in the allocation system without a fair-sharing system. We think it would be desirable to have one. The problem of an equitable sharing of the burden of reallocating oil is a real one, and we would not want to find ourselves in a situation where the companies would refuse to participate in an emergency because the system was not fair and put them in a difficult competitive position.

Thank you, Mr. Chairman.

Mr. SHARP. Well, thank you. I can appreciate your comparison with the Congress. I hope you have a fair sharing plan before we balance the budget, which ought to be a very high priority, in my judgment, but the likelihood seems limited at this point, in short terms.

Gentlemen, I appreciate your time and your effort and your testimony, and we may have a few further written questions. Thank you very much.

Our last panel this morning—I guess it is afternoon, now—this afternoon will be Mr. Lynn Coleman, Ms. Hazel Rollins, and Mr. C. William Fischer. The panel is composed of former DOE officials. Mr. Coleman is a former Deputy Secretary, Mr. Fischer was Administrator for the DOE Energy Information Administration, Ms. Rollins was the Administrator for DOE's Economic Regulatory Administration.

Welcome; you must be happy to come back under different circumstances. You have been with us many times before with others on this committee and myself.

Mr. COLEMAN. Mr. Chairman, until the last 30, 45 minutes I was wondering whether I was really before the House Energy Committee, but fortunately, you have reassured me in that period of time, and I feel right at home. It is good to be back.

Mr. SHARP. Well, I guess we will start with you, Mr. Coleman, if you will identify yourself for the record. We will make any written testimony a part of the record and we will be happy to hear from you at this point.

## STATEMENTS OF LYNN R. COLEMAN, FORMER DEPUTY SECRETARY, DEPARTMENT OF ENERGY; HAZEL R. ROLLINS, FORMER ADMINISTRATOR, ECONOMIC REGULATORY ADMINISTRATION, DOE; AND C. WILLIAM FISCHER, FORMER ADMINISTRATOR, ENERGY INFORMATION ADMINISTRATION, DOE

Mr. COLEMAN. My name is Lynn Coleman, a private citizen practicing law in this town. I am accompanied today by Hazel Rollins, an attorney from Washington, D.C., and Bill Fischer of Boulder, Colo., University of Colorado. I will not read my prepared statement. I have a sense that the chairman may have heard enough to have formed an opinion on the subject of the proposed budget cuts that is before us.

I would like to submit my statement for the record, and if I could, would approach this subject anecdotally.

It seems to me that what is really proposed is that as far as emergency preparedness is concerned, and one of the critical components of that is the energy information function, that we basically go back to the days that existed before the embargo in 1973 when we had an Office of Strategic Preparedness somewhere down in the nether reaches of the Executive Office of the President.

And as things began to heat up in the Middle East, concern began to be expressed and we decided we needed an energy czar, and we got Governor Love from Colorado. He had a nice office in the Executive Office Building and maybe a half a dozen people working for him, and when the war occurred and the embargo occurred, he was overwhelmed completely. And a very conservative Republican President and the Congress sitting at the time, within a period of 9 days as I recall, passed a bill called the Emergency Petroleum Allocation Act. Actually, they did a rather good job for the time they had. Another conservative man by the name of Bill Simon launched vigorously the Federal Energy Office, and we started into price controls and allocation and you know the rest of the history.

We had another serious supply interruption that occurred following the Iranian revolution. It resulted in shortages in this country, which were indeed exacerbated by the fact that we had gasoline allocation controls on the books at that time, but which was caused, though, in my opinion, because stocks in the hands of the oil companies had been run down in the fall of 1978 to a rather low level. When the oil supplies from Iran were cut off, it created a shortage of new supply coming in on the order of 2 million barrels a day. That created serious supply problems in the short term within the United States. Within a year, we saw a price increase from $12 or so to $35 or $40 per barrel, where it has stayed until very recent times.

There were persistent efforts at contingency planning and emergency preparedness. And in this area there are not really any new ideas. You try to fill the strategic reserve. And may I say that the fun part of the SPRO was buying the oil. The hard part is leeching the caverns, which was what we had the pleasure of doing, and I am dismayed to see that the administration is talking of deferral of the program for expanding caverns and reducing the rate of fill this year.

I think serious consideration should be given to buying oil on an accelerated basis now when prices are low, and renting temporary storage either at refineries that are not being utilized heavily now, or floating storage as other countries do. But in any event, the ideas for emergency preparedness, you have sort of what we used to refer to as "rounding up the usual suspects." The same ideas keep showing up on the same list.

I read the testimony of our successors this morning, and it seems that they have the same list before them, but I get a sense that not an awful lot is being done—not a lot of hard work to implement any plans you can rely on. I must say I have the impression that they have done one very good thing: That is to put all emergency preparedness together in one office.

The third supply problem we had, of course, was when the Iran-Iraq war started. Potentially, it was far more serious than that caused a year earlier by the Iranian shortfall. However, we got through it without any significant price increases and without anybody going short of petroleum. Now, what had happened in the meantime was the price of stocks had been built up to very high levels.

What also happened was the informal structure which has been tortuously put in place over a number of years at the International Energy Agency worked very well. There was never a trigger pulled, though there was talk of it. There was never an allocation system that went into place, but there was constant communications at high levels between the energy ministers of the countries. There was also common agreement on two rather fundamental propositions: First, that all countries would draw their stocks on a fairly uniform basis, monitor closely the situation, and be prepared to consider moving to active demand restraint measures should they become necessary; second, that there would be close watch on the spot market, which if you recall got completely out of hand in the situation following the Iranian revolution.

The way that actually worked was we had a couple of guys in Rotterdam that reported twice a day. I can remember situations where Secretary Duncan would call up the energy minister of another country, get him up in the middle of the night sometimes, and say, "What the hell was your country doing in the spot market yesterday, buying at a price that is over the market? Look into it and get back to me."

Through those—that network of a relatively small number of people around the world, but whom were in the right places, the lid was kept on. You had good cooperation from the major internationals. We were able, by request, to direct supplies to countries that might otherwise have been in triggering position. The problem was avoided by a combination of luck and, I think, doing the right things—a reasoned response to the situation.

Now, I am fearful that if the proposed cuts go into effect, our ability to act in that fashion will be undermined. No more persuasive testimony could be given for the importance of the Office of International Affairs than was given by its Assistant Secretary, Mr. Thomas. I thought at the conclusion of his testimony he should have said: "Therefore, Mr. Chairman, we need more people and more money." Instead, he said: "Therefore, Mr. Chairman, let us abolish the office, send it to the Department of Commerce to as yet unknown places, transfer the functions but no funding." That position simply does not make sense.

As far as the IEA is concerned, I think it one of the real success stories of the Department of Energy, few though they may be. If you will recall the situation in existence 5 years ago, from the standpoint of information, it was abyssmal. The information that existed was from the oil companies. It was probably highly reliable for general planning purposes, but nobody believed it.

I remember well during the gasoline shortage following the Iranian Revolution we spent half of our time trying to prove that, in fact, there was a shortage; that it was not the oil companies lying offshore with all of these tankers trying to run the price up. At that point, we did not have in place the weekly reports where the EIA collects information itself, on Government forms, punishable by a felony offense if they are lied to. Within a period of time after that, the basic facts about our energy situation came to be about as accepted as the weather report. We simply do not have people challenging the basic assumptions about what the situation is. But previously, we had to overcome great difficulty just getting agreement on what the situation was at any given time.

So it is a critical element to have accurate, timely, and credible information as far as energy preparedness is concerned. I fear that the cuts at the EIA—and there may be some reports that are unnecessary that ought to be cut out—that they are going to cut into analytical ability and to the capability of responding very quickly. It is my view that from the middle of 1978—from the middle of 1979 on, the Government probably had better information about the world situation than many of the major oil companies because we were getting it from all of them and on a real time basis.

It would be tragic to retrogress in that respect. One unfortunate casualty, they propose to cut is this fine piece of paper here, which is the annual report to the Congress, which I expect falls—they cannot have the analysts to do that kind of work with the budget cuts they have in mind.

Let me pause at that point and let my colleagues proceed.

Mr. SHARP. Fine, thank you.

[The prepared statement of Mr. Coleman follows:]

Statement of
Lynn R. Coleman
Before the
Subcommittee on Fossil and Synthetic Fuels
House Committee on Energy and Commerce
March 10, 1982

Mr. Chairman. Thank you for the opportunity to appear before the Subcommittee on Fossil and Synthetic Fuels to discuss the Administration's proposed budget for the Department of Energy, and particularly, for its emergency preparedness, international affairs and energy information offices.

The Administration proposes to cut funding for the Office of Emergency Preparedness in half, to cut the Energy Information Administration by about a third and to zero-out the Office of International Affairs. In aggregate dollars, the Administration would cut expenditures for these functions from $93.9 million in fiscal 1982 to $60.3 million in fiscal 1983. And as you will recall, significant cuts were already made from 1981 levels in 1982. Moreover, the proposed budget cuts would be accompanied by notable reductions in personnel.

While I am not in a position to be intimately familiar with the exact relationship of expenditures to functions, nor with the exact number of personnel required to perform these functions, one need not be familiar with all such details to form an opinion about this budget. By the severity of the proposed cuts, the Administration raises starkly the question of whether the functions themselves continue to be necessary. On this basis, I have no hesitation in saying that the proposed cuts are a mistake -- possibly one of serious proportions.

In the statements of various other witnesses before this Committee, and particularly in the opening statement of the Chairman yesterday, the point has been well made that the expenditures for these functions are critically related to our national security. In these days, many are drawing comfort from the fact that we have a so-called "oil glut", that oil prices are coming down, and that OPEC appears to be in some disarray. There is a lot of new oil and gas being developed around the world. These developments have encouraged the questioning of certain basic understandings that were widely held within the Congress, the previous Administration and the interested public, about the nature of the energy problem and the appropriate policies for addressing that problem. This painfully developed consensus had culminated in bipartisan support for a number of administrative and Congressional measures that emphasized a combination of conservation and the development of domestic resources and new technologies to reverse our heavy dependence on imported petroleum.

Now it seems that the world energy situation has entered another period of great uncertainty, which threatens to undermine this relatively high degree of consensus with respect to the nature of and solution to our energy problems. In the midst of these new and very confusing circumstances, I submit that the Subcommittee should look at these budget issues in very fundamental terms.

While dependence on oil imports is down, these imports continue to be the most significant factor in the energy situation in the United States, Western Europe and Japan. The Energy Information Administration in its newly released annual report to the Congress (a proposed casualty in the Administration's budget), forecasts that oil imports in 1985 will be at 6.9 million barrels per day, which is higher than they are today, before they begin to decline to 5 million barrels per day by 1995. Interestingly, this forecast uses an economic growth assumption that is lower than the Administration is using for other purposes. Since imports are the marginal source of supply, if economic growth is as high as the Administration has been predicting, it would follow that imports will have to be even greater.

In light of this continued dependence on imports, we should ask two fundamental questions:

1. Has anything happened in the last year to make our foreign sources of supply more secure than they were? Obviously not. The situation in the Middle East appears even more volatile. There are a number of smoldering conflicts which could set in motion a chain of events that would lead to a major supply interruption. Indeed, the declining price of oil is itself a cause of much turmoil and some overt threats among Persian Gulf states.

2. Are we as a country any more prepared to deal with a major supply interruption than we were a year ago? Fortunately, the answer is yes in one critical respect. The Strategic Petroleum Reserve has now almost 250 million barrels, but regrettably the Administration is proposing to slow down the fill rate and to defer new storage construction. With oil prices declining, our purchases should be accelerated, and the alternative of temporary storage fully explored.

In the critical areas of contingency planning and emergency preparedness, however, much remains to be done, and the proposed budget and personnel cuts will be counterproductive. My fellow panel members Bill Fischer and Hazel Rollins will discuss in detail the effect of the proposed budget cuts in the Energy Information Administration and the Office of Emergency Preparedness. I would add only, with respect to the EIA, that there is no more critical component of emergency preparedness than the availability to the Administration, the Congress and the public of accurate, timely, and credible information. The EIA is one of the Department's real success stories. If you compare the situation now with that existing five years ago, from the standpoint of the quality and timeliness of energy information, it is clear that much progress has been made.

Let me now turn to the Office of International Affairs. The Administration's proposal is to abolish the office and to transfer its functions to parts unknown in the Department of Commerce without any accompanying funding. In the past, DOE's Office of International Affairs has cooperated closely with the State Department. While the State Department's role is important in this area, State is unlikely to be able to replace the analytical resources which the Office of International Affairs could bring to bear on international issues.

One of the most important functions of the International Affairs Office has been representation of the United States at the International Energy Agency. There, most of the countries are represented by their energy ministries, and the nature of the work often requires an intimate familiarity with the petroleum industry, in its many and complex facets. I fear that the Administration's proposal is based on an unstated premise that the United States really ought to deemphasize its role in the IEA. This is most unfortunate because petroleum shortages, by their nature, become international in their impact very quickly. The only effective response to a shortage is one that is closely coordinated with the other consuming countries. This was clearly recognized in the Ford Administration when Secretary Kissinger successfully concluded the international agreements upon which the IEA is based.

I know from experience that strong U.S. participation and leadership is necessary to the IEA's continued effectiveness. The IEA monitors production, imports, stocks and consumption on a world wide basis. It is essential that U.S. oil companies continue to participate in this effort, and the Congress has provided them an exemption from the antitrust laws for this purpose. (The law also requires a variety of safeguards which are administered by DOE and the Justice Department.) Thus the IEA is important for its data gathering and contingency planning activities and as an international forum through which voluntary cooperative measures can be taken to prevent potential crises from occurring.

Running through all of these cuts, and indeed through the proposal to dismantle the DOE, is the notion that governmental involvement in energy is itself the problem, and perhaps the only problem. The notion seems to be that if we get rid of the people who know about the problem, worry about it and plan with respect to it, we will somehow have solved the problem itself. Yet there can be no debate about the national security implications of the subject with which we deal today. This Administration has proposed defense expenditures at unprecedented levels so that, among other things, we will have the capability to react militarily to events which are of significance to us primarily because of their potential effect on the West's oil supplies. It would seem a matter of elementary prudence to spend a little more now to reduce our vulnerability to these problems, and to equip ourselves to cope adequately with them through contingency measures.

Mr. SHARP. Ms. Rollins.

## STATEMENT OF HAZEL R. ROLLINS

Ms. ROLLINS. Yes, thank you, Mr. Chairman. It is, as Lynn points out, a real pleasure to be here, not carrying anybody's water but my own. I have had an opportunity to review many of the studies that this subcommittee has examined over the past 2 days that you have held these hearings.

First of all, I want to compliment you on the care and scrutiny you have given the department's energy preparedness budgets in light of two events: One, your continued effort to try to give the administration some real emergency preparedness programs, perhaps in the form of the bill that now sits on the President's desk. And two, most certainly in view of the increased potential for some disruptions in the Middle East, the hearings are, indeed, timely.

With respect—I want to point out, though, Mr. Chairman, that one need not look at the DOE's budget for emergency preparedness to determine that, in fact, they have walked away from the emregency program. Our clients in industry and commerce tell us that in conversations with senior DOE officials charged with the emergency preparedness functions, these officials tell them that through a combination of already-implemented budgetary constraints, policy decisions and manpower reductions, the DOE in fact has no capability to deal with an energy supply disruption no matter how great or how small the disruption.

In addition, after having looked at the budget, I would further submit and with a great deal of concern from my perspective as the Department of Energy and this Nation's official representative to the IEA for AST-3, that we are woefully unprepared to discharge any of our responsibilities under the international energy sharing agreement, and I do not make this judgment very lightly.

Another point which I think bears upon this discussion and perhaps further negotiations you might have with this administration, Mr. Chairman, is a point that I think has not received much attention in this dialog regarding energy preparedness. We are finally forced to come to the conclusion that this admnistration's energy emergency preparedness program, in fact, has one prong, and it was quite clearly stated today. That is, we will depend on the market clearing prices.

The interesting thing we have just begun to learn as we examined the events that Lynn has just described in 1973 and 1979, are the a long-term economic impacts of an energy price flairup. We have for so long talked about the immediate economic impact and all of its attendant human hurts. We have only recently begun to examine those long-term impacts.

I would bring to your attention two pieces; one written by Otto Eckstein, president for Data Resources, Inc., and the other written by an old colleague, one who has appeared in these Halls of Congress many times, George Perry of Brookings. In both of these pieces, these analysts attempt to take a fair look at the long-term impact of rising energy costs caused by supply interruptions, which they find, of course, to be great.

In the Perry Brookings piece, the measure was taken from the oil embargo. The immediate impact of that price shock reacted on the economy at about $10 billion. Perry calculates that through 1977, that impact was $200 billion.

With respect to the Iranian revolution, the Data Resources people take a cut at the same analysis. For the early-on term during 1979, the impact in terms of the gross national product was $15 billion in the economy, but the more long-term impact is in excess of $200 billion.

I would submit to you that without regard to our concerns about national security—and they certainly are paramount—and without regard to our concerns about the short-term and immediate impact of energy prices, we ought to begin to at least enter into a discussion of the long-term price impacts. That may force people to deal with the problem. It is an impact that leaves us with an inflationary spiral which is uncontained in a decade. It leaves us with impacts in terms of our job market and unemployment that I submit we cannot, as a nation, endure.

I hope that kind of an analysis will enter into this discussion, and perhaps with reason and with good sense, we can finally bring this Nation to conclude that we cannot and should not be made to endure the impacts, both long term and certainly short term, that we have had on two occasions in the past decade. Thank you, Mr. Chairman.

Mr. SHARP. Thank you.

[The prepared statement of Ms. Rollins follows:]

## TESTIMONY

## OF

## HAZEL R. ROLLINS

Mr. Chairman and Members of the Subcommittee on Synthetic and Fossil Fuels, it is a pleasure to appear before you today to discuss the Department of Energy Fiscal Year 1983 budget for Emergency Preparedness. As you know, up until a little over a year ago I was Administrator of the Economic Regulatory Administration and have been involved in national energy since 1974.

I have reviewed many of the studies presented to you during this two day proceeding. Your careful scrutiny of the Department's Emergency Preparedness budget is timely in light of the increasing potential for disruption in the Middle East.

One need not look at the fiscal 1983 budget only to determine that the Department of Energy has already, quite deliberately, and without regard to congressional intent, done away with its capacity to deal with future energy emergencies. Our industry associates have reported to me that according to senior DOE officials, the Department, through a combination of policy, budgetary, and manpower constraints, has created a situation in which it quite simply does not have the resources to deal with an energy emergency, regardless of its gravity. In addition, under the submitted budget proposal, the United States will be unable except in the most token fashion to discharge its responsibilities under the International Energy Sharing Agreement.

The national emergency preparedness program amounts to one thing--a market clearing strategy.

One point which has not received attention is the consequences of a market clearing approach. We are finally learning that the immediate economic costs of a petroleum supply interruption, though painful in human terms, are small compared to the long term costs. According to Geroge Perry of Brookings, the economic loss during the Arab Oil Embargo, measured in the first half of 1974 was probably under 10 billion dollars. Only 5 percent of the 200 billion dollars in economic costs he projected through 1977.1/

Otto Echstein, President of Data Resources, Inc., calculates that during the 1979 Iranian Revolution the immediate loss in Gross National Product was on the order of 15 billion dollars, as opposed to the several hundred billion dollars of calculated long term loss.2/

These long term negative effects in the economy stem directly from the oil price increases associated with "crisis-induced" petroleum shortages.

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1/ Higher Oil Prices, C. Schultze and E. Fried, Brookings Institution, 1975.

2/ Energy, Prices, Inflation and Economic Activity, Edited by Knut Anton Mork, MIT Center for Energy Policy Research, 1981.

While the deliberate adoption of a strategy aimed at market clearing prices during an energy supply emergency may simplify program administration, such a policy guarantees that the disruption and the costs to the economy caused by the crisis will be maximized over the long term.

In short, Mr. Chairman, it would be impossible to conceive of a strategy that would have a less desirable effect from the standpoint of reduced Gross National Product, increased unemployment and reinforcement of inflation than the strategy that has been adopted by this Administration. It seems to me that the Administration could not adopt this strategy if it were aware of the long term costs that it would impose on our society. I therefore urge that your oversight include a systematic analysis of the costs associated with other strategies for dealing with future oil supply interruptions. Through an examination of this sort we may be able to arrive at a set of energy policies that prevent a repetition of the costly consequences we have suffered twice in the last decade.

Mr. **Sharp**. Mr. Fischer.

## STATEMENT OF C. WILLIAM FISCHER

Mr. **Fischer**. Mr. Chairman, it is a pleasure to be here. Unlike my two colleagues, I am not yet a private citizen. I work for the State of Colorado. I am the vice president for Budget and Finance of the University of Colorado. For 3 years, from 1977 to 1980, I served in the Department of Energy in capacities in which I crossed the line between data collector and analyst as Deputy Administrator of the Energy Information Administration, to policymaker, as the Special Assistant to the Secretary and Deputy Secretary.

From 1975 to 1977, I served as the Assistant Director of the Congressional Budget Office for Human Resources. In that capacity, I came to know the value of an independent analytic organization which, having served 16 years in the Office of Management and Budget, made me realize that that is the one force in town that keeps OMB honest. Recently, that has turned out to be a substantial task.

The objectivity that is provided by an independent energy administration is one that is vital and valuable, and I would like to address it because, while no one yet has seen the legislation with regard to the disposition of this organization, it may, in fact, undermine that independence.

I have appreciation for this committee's effort. It is timely for you to be looking at this problem because of the fragility of the situation in the Middle East which probably has been worsened, not lessened, by the drop in oil prices.

The OPEC nations, as you know, in fact, supply 43 percent of the non-Communist world's petroleum supply today, and the Comptroller General provided you with a report yesterday indicating what he thought the economic impact of an interruption in supply would be in the short term as well as the long-term economic effect that Ms. Rollins just alluded to. Both domestic and international consumption have changed dramatically in response to cost escalation, and that adjustment is not completed. It has not run its course.

One of the witnesses from the Department just alluded to the fact that we do not understand how much of the demand reduction is attributable to economic recession worldwide, how much is attributable to temporary price adjustments, and how much is attributable to permanent changes in capital stock with regard to energy efficiency. And therein lies a very difficult problem, a knotty problem but one which deserves competent, continuous analytic attention. The very kind of attention in the mid-range and long-range analytical areas that the administration's budget proposals would, by their own admission and testimony, eliminate.

Finally, that budget proposal would further reduce the already limited EIA resources by 40 percent in dollars from 1981 and 43 percent in personnel from 1981.

Now, I am not here to defend the levels of resources, either personnel or dollars, that were in EIA at its high point. I was its Deputy Administrator, and I believe we were doing things at that time that probably did not need to be done. However, you do reach a point where you begin to eat away and destroy the ongoing institutional understanding and data bases that are firmly established as credible in the minds of the industry, as well as in the public sector, and that credibility is crucial, as Mr. Coleman pointed out.

Now I do not pretend any longer to be an expert in all the details of the EIA budget, but I have had an opportunity to examine, at least in a preliminary way, what I think the impact of these budget reductions would be. For your benefit I have developed a set of questions under four categories which are important responsibilities of the Energy Information Administration and which go to both the short- and long-term capacity of that administration to provide the Congress, the executive branch, and the private sector with critical information. With your permission, I will just go through a few of these. .

The reason I offer them, sir, is that if I were sitting on your side of the bench instead of this side, I would want to satisfy myself on these questions before determining what action this committee wants to take. I would say at the outset, that the personnel side of the business is every bit as critical, and perhaps more critical, than the dollar resources.

You can restore dollars; you cannot restore competent professional people who have the confidence of the industry and the knowledge of the industry that it takes on short notice to get out even a telephone survey and expect to get an honest answer.

I bring to you our experience with the coal strike of 1977 as well as the later petroleum situations. I also bring some scar tissue, frankly, from being caught between the Congress and the Secretary of Energy, who at that time was able to impose his wrath on a quasi-independent energy analytic data organization.

I recall, with not much pleasure, being on the phone with Governor Rhodes of Ohio in 1977, whose State was 95 percent dependent on coal for the electric power it consumed and being whipsawed between data that was provided by the Southeastern Ohio Power Co. to him directly to his office; data from his own energy department; and, data we had been collecting for a long period of time on a monthly basis.

If it had not been for the stable data information that we had been collecting with the signed statements from these power companies in terms of their coal stockpiles, we would have been helpless in knowing what that supply situation was.

As I say, I have had a chance to examine what the budget impacts are, and frankly, the bottom line is that in my judgment the 1983 budget recommendations would destroy the essential minimum level of data and analysis capacity that the executive branch, the Congress, and the private sector need to understand and respond to the critical energy shortages of either coal, natural gas, or petroleum.

What are the four functions? A comprehensive and credible integrated energy information base; objective and competent data analysis, accuracy and validity of data; and, efficiency in being able to gather this data to eliminate redundancies wherever necessary, and that means having access to industry information in such a way that you can guarantee them protection of information critical to their competitive position.

It is the same protection that exists now for the Census Bureau and the Bureau of Labor Statistics. This Energy Information Administration has never had parallel ability to protect the confidentiality of industry data. In my judgment, it has impeded the ability even to get data frames and universe lists from the Federal statistical organizations that would allow us to eliminate duplication and cost and also to cross-check the data bases.

I think that is essential. It is one of the things that is in the energy information amendments of 1981 that I would commend to your attention.

Under the first responsibility of comprehensive integrated energy data base, the problem there is consumption, Mr. Chairman. For years the Department of the Interior through the Bureau of Mines in fact collected fairly reliable data on the production of mineral fuels. But the consumption end of the equation was simply not covered. We started from scratch essentially in 1977 to build that data base.

One of the most important elements of that base is industrial consumption. Forty percent of our energy consumption is in major industry combustors. In October 1980 the first industrial combustor survey was put in the field by EIA. In February of 1981 a clearance for that survey was withdrawn. Somewhere between 75 and 80 percent of the industrial respondents had indicated their willingness to respond. Today we do not have a survey of consumption by major industry combustors in terms of their fuel switching characteristics—their age, their ability to replace, their replacement patterns, which we would have had if that basic survey of industrial consumption had been left alone and put in place.

You will not find that survey provides for in the administration's budget because it had been eliminated from the data base and it covers 40 percent of the energy consumption. In addition to that, the question you should ask is: Will this budget support the Census Bureau's collection of basic fuel data under their Annual Survey of Manufacturers. I think the answer to that question is no.

Another question is: Will the funds in this budget support the Bureau of the Census collection of petrochemical feed stocks, which account for about 5 quads of energy production in this country, or 16 percent of our industrial use of energy materials? I think you will find, Mr. Chairman, the answer to that question is no.

Will the residential energy consumption survey include the transportation sector—we are talking about family automobiles, which turns out to be 12 percent of our total U.S. consumption, 25 percent of our petroleum consumption and 50 percent of our transportation consumption. I suspect, Mr. Chairman, you will find that the answer to that is no.

Will it include consumption by apartment buildings, which are major users of energy? I think you will find, Mr. Chairman, that the answer to that is no.

Will demand and consumption data on commercial buildings be collected? We have never had a separate consumption survey of commercial buildings. There was one in the planning stages. So when you review this budget you might ask whether the funds are adequate to provide for the survey of consumption of energy in commercial buildings.

You might ask what funding and personnel would be required to carry out comprehensive energy consumption data series covering all of these areas with adequate frequency and how this compares with what is in the budget.

In the international area, the question is what is the current range of uncertainty with regard to petroleum stocks worldwide. Here we are talking about immediate energy availability. I think you will find that there are some major gaps in our understanding of worldwide petroleum stocks, specifically storage in lesser developed countries, that is Third World countries, and the amount of petroleum that is in fact at sea.

I think in both of those areas we do not have an adequate understanding of petroleum stocks. The question is: Does this administration's budget proposals provide enough funds and enough people to fill that gap?

The next question is: What would be required in funding beyond the administration's budget to reinstitute the secondary stocks report that was discontinued in March of 1981. I think you will find it was on the order of a $1 million or $1.2 million so that the Census Bureau or the EIA could reinstitute the secondary stocks survey and report.

I think you will find that the Census Bureau is at least as hard pressed in terms of its own funding as EIA is in its 1983 budget. Secondary stocks can be a very important element if you want to understand what our current status is should the balloon go up.

Another question is will the reduction substantially impair energy demand modeling and analysis capability? I would ask, if I were you, how many analysts are now working on this problem? With the budget reductions over the past year, how many have been involuntarily separated due to the RIF's that have taken place already and how many have been resignations due to demoralization, and what was the level of expertise of the people who left?

I think you will find that we are already down to a core cadre of people that have to be preserved. In other words, the fat is gone—in my judgment. But certainly further reductions of the magnitude proposed in the 1983 budget of the administration would cut into that remaining core cadre of people.

Are we able to sort out and attribute the recent demand drops, as I alluded to earlier? I don't believe you can do that unless you have an interactive analytic capability looking at alternate fuel substitution and looking at the status of consumption. As Mr. Vaughan said in his testimony, we don't have the answer to that. And taking out that analytic capability will just about guarantee we will never have the answer to that.

There are other questions, but I think that gives you the flavor, Mr. Chairman, of the kinds of questions, which should be asked and if it would help the committee, I will be glad to provide the committee with a list of questions to that effect which I think will give you a better basis for deciding how you want to view these proposed reductions.

Mr. Sharp. Well, I appreciate that, Mr. Fischer, and if you could provide us a list of those kinds of questions, it would be useful.

[The questions referred to follow:]

SUPPLEMENTAL MATERIAL

1. Developing a comprehensive and credible integrated information base

- Will E.I.A. be able to re-institute the data series on industrial consumption (known as EIA-463), which constitutes 40% of national energy demand?

- Will this budget continue D.O.E. support for the Census Bureau's collection of basic fuel data under their Annual Survey of Manufacturers?

  or

  D.O.E. support for the Census Bureau petro-chemical feed stock survey which use accounts for about five Quads or 16% of industrial use?

- Will the residential energy consumption survey include:

  - The Transportation component which surveys:
    12% of total U.S. consumption
    25% of petroleum consumption
    50% of transportation consumption?

  - Apartment buildings consumption?

- Will demand/consumption data on commercial buildings be collected? This is a major deficiency.

  - With what frequency?

- What funding and personnel would be required to carry out a comprehensive energy consumption data series with adequate frequency?

  - How does this compare with what is in the Administration's Budget proposal?

- In the international area, what is the current range of uncertainty with regard to stocks worldwide? I understand we are still quite uncertain about stocks in less developed countries (LDC's) and at sea--at least a 10% factor in worldwide stocks.

- What would be required in funding beyond the Administration's Budget request to reinstitute the secondary stocks report which was discontinued in March of 1981.

- What has been the impact on the proposed Mobil/Marathon merger of the FRS data?

  - Do the firms involved find it useful or not useful to have their financial dealings on the record?

  - What is the basis for proposing to eliminate it?

## 2. Providing objective and competent energy data analysis

- o Will the reductions destroy or substantially impair energy demand modelling and analysis capability?
  - How many analysts are now working on this problem?
  - What reductions have been taken over last year?
    - a) involuntary separations
    - b) resignations due to demoralization
  - What level of expertise was held by those who left?
  - How many more separations would be caused by the proposed FY 1983 cuts?
  - Are we already down to a core cadre that must be preserved?
  - Are we able to sort out and attribute recent demand drops between:
    - a) lower economic activity;
    - b) temporary price adjustments;
    - c) permanent conservation changes?
- o We started from scratch in 1977 and it takes years to develop a mature competent staff.
- o It is essential to keep the data gathering relevant to have these people doing analysis of questions which decision-makers must answer.
- o Under this budget, only integrated forecasting which goes out 5 to 8 years will be maintained since all mid- and long-range forecasting will be eliminated.
  - Do these short-range forecasts incorporate new technology which could alter supply and demand?
  - Do these short-range forecasts incorporate probable additional production capacity or existing only?
  - Do they incorporate volume and price interrelationships between natural gas and alternative fuels?
  - Are they adequate to forecast demand and price factors for electric utility planning including long-term financing and amortization requirements?
  - Are we and will we continue to be able to check private forecasts of demand by industry, state, local governments?
  - Isn't this "honest broker" role crucial?

- Will proposed new legislation make E.I.A. beholden to a Departmental Secretary for its existence? Or will it continue to have the statutory independence which Congress provided in 1977?

  My experience in C.B.O. and the Energy Department underscores the essentiality of the honest broker role.

- If the proposed personnel cuts of another 29% are taken and the funding is held level at $79 or $80 million, what percentage of E.I.A. work will be contracts and will there be adequate staff to:

  - monitor those contracts?
  - maintain a government base of "hands on" competence?
  - The % of contract effort is about 60% now; what would it be under the reductions proposed?

- In the international area, will the electric, coal and gas forecasts be continued?

- Will the coal export analysis be continued?

  It would seem to have a direct relationship to the European's temptation to turn East for natural gas, a prospect which we have national security reasons to fear--to say nothing of exports being a growing 1/8 of our coal markets.

3. Accuracy and validity of data

   - If indepth validation of data and models is eliminated, who will be responsible for basic accuracy and validity? If this quality control is to be a responsibility of the data program offices--I suggest that is probably a case of "asking the rabbit to carry the lettuce". That is, there would be a built-in conflict of interest.

4. Efficiency

Confidentiality amendments should be enacted to allow E.I.A. to gain access to key BLS and Bureau of Census frames and universe lists, and to assure respondents that their sensitive data will be protected--a key to cutting unnecessary costs and assuring accuracy and reliability of data.

Mr. **Sharp**. As you know, in dealing with Congress it is difficult for us to stay on top of the myriad of things going on and get a good grasp on what is really happening and what is really necessary and whether in fact it is adequately staffed or overstaffed.

You said that at one time in the past it had been and, frankly, we do not want to be in the position of defending expenditures for no good substantial reason at this time because we have a desperate budget situation. I do not want to play the game just because energy is in our jurisdiction we have to defend everything that is being spent on energy. That tends to be what happens up here and that is very deadly to the system as a whole. I think there are a number of people on our committee who are interested in trying to get a better grasp on things.

We suffer from the same situation in the country that while this is not the first priority at the moment, it is also easy to let things drift.

Mr. **Fischer**. There are probably two more points that I should make. What is the impact of this budget on coal export analysis? As you know, exports are up to about one-eighth of our coal market and that has doubled in the last 3 years. When Western Europe considers what it is going to do for fuel supplies and looks to the east for natural gas, it needs some assurance with regard to the coal we can produce and move through our limited port facilities on the east coast. The coal analysis is, I understand, going to be eliminated in this budget. I think from the international security standpoint, that is important.

And finally, with regard to the accuracy of the data, we had a pretty large validation shop in EIA. That was important, especially in the early days. We assured that that validation office was carried on in good form, and it was. This budget would eliminate data validation function as an entity on the same scale. That is not to say there will not be accuracy checks, but as I understand it, the present administration intends to rely primarily on the producers of the data to check its accuracy and its validity.

Mr. Chairman, my view of that is it is a little bit like "asking the rabbit to carry the lettuce." He only has one place to do it. It probably will not get delivered on time. You need an independent organization, it seems to me, inside the administration reporting to the Administrator, who is responsible for that.

Mr. **Sharp**. Well, I appreciate that and you know from your experience here the deep suspicions that sway the public and Capitol Hill when anybody announces something. They say it came from the industry and in a moment of crisis, no matter how accurate that may or may not be, it tends to get dismissed in the debate as not helpful.

One of the things of difficulty is you start with the assumption you want to minimize Government intervention and certainly not have its excesses. It seems to me you have got to be able to maintain a fairly substantially credible position so you know what is going on and be able to explain that and explain why you are going to be able to work yourself out of the situation.

I think most Americans can accept the fact that we are going to get hurt during the time of an oil crisis and some of that simply is the unfortunate result of an oil crisis. There is nothing you can do about it. But they are not going to accept the fact that the Government has abandoned its ability to know what is going on and is going to leave it all to fate.

They may be willing to leave a lot of it to fate if they have an explanation, but I think as public relations we have got to be able to respond. I know both of you got to testify before the Congress, and perhaps you too, Mr. Fischer, at the same time as Members up here were going berserk—from the people back home, the things we were hearing, the rumors we were hearing, sitting in gas lines ourselves and seeing on the front page of the Washington Post a story that the tank were full out here, but they just went on up to New Jersey and things like that.

Those are things that are obviously unfortunate distractions when there is no basis to them.

Well, folks, I really appreciate your help. I am a little dry on questions after the previous session. I know we are going to have a continuing interest in this issue. I think we are trying to develop a capacity here and hopefully the remaining capacity of the Department to be able to have some sense of what we ought to do at that time if we face another crisis.

We appreciate your advice on those matters. You have been on the firing line and we would appreciate that service you gave. Maybe there did not seem to be much appreciation at the time it was going on because there was so much critical comment, but I appreciate that and especially your help now, and we may followup with more inquiries to you with respect to this budget since many of us will be making the case to the Budget Committee, and the Appropriations Committee, not to follow the recommendations of the administration.

If you can find some other areas where we can usefully cut, because we want to find those as well, and not just be in the posture of defending expenditures. Did either of you have something you wanted to add to the conversation?

I will give you one last chance.

Mr. Coleman. No, Mr. Chairman. I think you have adequately covered it.

Mr. Sharp. It seems like you have lost none of what was required in your former position.

Mr. Coleman. I couldn't help but think this morning that the aggregate cut you are talking about here is something like $30 million. I guess you might be able to buy a landing gear on a B-1 bomber for that, but not much more, and these are national security expenditures.

It seems to me elementally sound to spend a little more money on trying to understand and avoid occurrences where we might have to employ all this vast amount of hardware we are about to buy.

Some of these people we might let go just might be the people with some good ideas and some sound instincts to help us cope if we do have such a situation. I think that is the context in which the cuts should be evaluated.

Mr. Sharp. What strikes me more than the money is the personnel question. Obviously personnel is going to change in any of these departments, and does. They need to change from time to time. But

I hear increasingly from outside private sources, that they would much rather know that there are people who have learned and become more competent in the nature of the business and what the limits are, as well as the possibilities of Government action.

In fact, I believe it was the testimony from the public number of the National Petroleum Council yesterday. One thing that kept coming up was the fear of the early days when perfectly capable and very knowledgeable people simply knew nothing about the industry, knew nothing about it and were put in a position of having to make very quick decisions that were counterproductive.

I have discovered among a number of groups the fear that what we do, we then suddenly bring in people very quickly to try to perform functions that they will not be in a position to perform.

Mr. **Coleman**. That is correct. You have people at the Department of Energy who served through the last four Presidents ably and who have a lot of expertise. Many of them have left and many of those who remain, I fear, are demoralized. But to get rid of somebody who is willing to work for Government because he enjoys the work, thinks it is important, and makes $40,000 or $50,000 a year when his market value is two or three times that, seems to me to be a waste of Government assets.

Mr. **Fischer**. I suggest two points regarding this interface between the public and private sector. The first one is, that while the present administration indicates there are many private sources of projections and analyses, and that is certainly true; that you buy several things with an in-house capability. One is that these folks are already at about 62 percent reliance on private contractors. If you held those dollars at $80 million, which is the current year's level, and you made a 20-percent cut in personnel—Federal personnel—EIA would turn out to be about 75 to 80 percent contract-dependent and you would not have enough people to monitor those contractors and check the accuracy of their assumptions and their statistical frames and so on. That is the first one.

The second point is you would not have anybody to check the validity of that private sector analysis and the third point is some of us, at least, believe that the market does work very well and the competitive forces of the market in fact increase the efficiency of allocation, at least in normal times.

But it does not work very well without data. It is enhanced—the competitive forces of the marketplace are in fact enhanced—when data is generally available. Those forces are impeded when data is not generally available.

So that if you want to enhance the marketplace operation for efficiency allocation, you had better have the information out there that is accurate and credible.

Mr. **Sharp**. That is a very good point.

Ms. **Rollins**. Mr. Chairman, I would leave you with, again, as I have my colleagues, one point. I guess it is my favorite litany in this budget examination. With regard to the International Energy Agency, the one thing that I have learned in my dealings with them, both through AST-2 and -3, is often the Federal Energy Administration was bringing to the table, just as we have discussed, new and untried personnel.

There may be two or three people left over there in the allocation office who find some comfort in dealing with the questions involving the international energy sharing agreement. The things I am concerned about are these: You demand that there be a staff there that does not have the reponsibility for international trade but in fact knows the energy marketplace and the players. There must be a capability to understand some of the data limitations we examined and discovered in AST-3.

They go to the very thrust of what supplies are moving in transit. Nobody has ever understood that. I would submit to you that no voluntary sharing program is going to work until people agree on what is in transit and what each nation shall be assigned.

The second concern involves the industry. You pointed out quite strongly that the industry is not going to voluntarily share unless there is a referee who understands what each company's allocation share amounts to and insures that those agreements are honored. We discovered this during AST-2, which was only a test. One could not get a major industry representative to agree on his own that *x* was his company's allocation. And, too, to give it up without some prodding from the Federal Government. Those functions, I think, are important to insuring that all of our international partners have a sense that we can repeat what we managed to accomplish during the Iranian-Iraqi war. Use our persuasive skills to avoid the use of the club you suggest we ought to still hold, and I believe we should.

Mr. SHARP. I find the holding of the club and not the exercising of it important. There were many instances in the previous crises when many of the members of our panel were pressing the Secretary to come to some specific decision and he refused, but by virtue of the discussions was able to get a number of things accomplished that hopefully were of benefit to the public interest but did not require the use of the club.

The existence of the club had the people bringing the parties to the table to talk.

Ms. ROLLINS. In the days of the club, one could get on the phone in the afternoon and suggest that it would be a very good idea to find industry representatives in Washington to talk about a problem. There might have been a threat to use one or two clubs, but the spirit of cooperation was certainly there in view of what was in the closet.

Mr. SHARP. Well, thank you very much. We certainly appreciate your help and cooperation.

[The following material was submitted:]

Department of Energy
Washington, D.C. 20585

OCT 1 6 1981

Honorable Philip R. Sharp
Chairman, Subcommittee on Fossil
and Synthetic Fuels
House Energy and Commerce Committee
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Less than three weeks ago I assumed my responsibilities as Assistant Secretary for Environmental Protection, Safety, and Emergency Preparedness. On that day I communicated to you and your colleagues on the Fossil and Synthetic Fuels Subcommittee my firm opposition to any standby oil price and allocation legislation. As you will recall, I promised that a "no bill" policy by this Administration did not mean a "no action" position by the President, Secretary Edwards or myself. As your Subcommittee considers several bills dealing with this important subject, I want to share with you some of the activities now underway, or being planned, which I believe will protect the health, welfare and national security of our country, without creating the distortions and dislocations caused by oil price and allocation controls.

As a result of Secretary Edwards' reorganization of the Department, we are now well positioned to direct the development of coherent and integrated emergency contingency plans dealing with oil supply disruptions and other energy emergencies. The reorganization for the first time placed nearly all contingency planning and emergency preparedness responsibilities within a single office, which I now head. My responsibilities include the Strategic Petroleum Reserve (SPR), the Naval Petroleum and Oil Shale Reserves program, and the Office of Energy Emergencies.

It is our firm commitment to minimize the adverse effects of any future oil supply disruptions by helping facilitate the free market. This will be accomplished by intensive efforts to continue to develop the Strategic Petroleum Reserve as rapidly as feasible. In addition, we will focus our contingency planning efforts in the following areas:

-- identify and help remove regulatory, environmental, technical and economic barriers to efficient emergency energy use and response measures;

-- provide leadership for greater public understanding of the need for energy emergency preparedness and provide for effective communications during crises;

-- work closely with the International Energy Agency to achieve the most efficient international production, transportation and use of energy and the most effective response to major supply disruptions;

-- remove disincentives, and provide the incentives needed for self-help measures, including petroleum stockpiling, supply interconnections, and standby additions to existing facilities;

-- work with state regulatory agencies to develop practical standby procedures to permit prompt increases in oil and gas production during emergencies;

-- conduct studies of likely future energy emergencies, including the forms future oil disruptions might take and their impacts on the U.S. and other consuming nations;

-- identify essential energy requirements of the military and defense industries during emergencies;

-- study the feasibility of designing standby plans for emergency withholding tax reductions, increases in transfer payments, and other means of recycling selected tax revenues during major oil supply disruptions;

-- provide data analysis to insure accurate and timely assessments of energy markets and conditions;

-- establish an Emergency Preparedness Advisory Committee that would be a source of comprehensive understanding and technical expertise on the workings of the energy industry and the needs of energy consumers and assist the government in planning for and responding to energy emergencies;

-- reactivate and revamp the Executive Reserve Administrations (Emergency Petroleum and Gas Administration and Emergency Electric Power Administration) to strengthen the partnership between the private sector and government in preparing for and managing future energy emergencies;

-- coordinate closely with state and local governments in energy emergency preparedness activities.

As you can see from these activities, we are fully committed to preparing for and protecting against oil supply emergencies. But I cannot overemphasize the Administration's firm opposition to any legislative action which would interfere with the ability of the free market to respond to such emergency situations. Any additional legislation, such as standby price and allocation controls, would foster a false sense of security by creating the impression that government can and will somehow "come to the rescue" of those who do not take prudent self-help measures.

With the measures I have outlined in this letter, we believe that the health, welfare and safety of the American people will be protected in a severe energy emergency without imposing intrusive government controls that will inevitably make a bad situation worse. As I stated earlier, I am committed to working closely with you and your colleagues on the Subcommittee and will be anxious to meet with you if I can answer any questions or provide further assistance.

Sincerely,

William A. Vaughan

William A. Vaughan
Assistant Secretary
Environmental Protection, Safety,
and Emergency Preparedness

**Department of Energy**
**Washington, D.C. 20585**

FEB 23 1982

Honorable Philip R. Sharp
Chairman, Subcommittee on Fossil
and Synthetic Fuels
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

In response to your letter of January 21, 1982, I am providing the following information on the Energy Information Administration's (EIA) Fiscal Year 1983 budget request. This information is meant to complement EIA's Congressional budget submission and to provide the additional detail that you requested.

In accordance with Section 53(d)(2) of the Federal Energy Administration Act, I want to summarize briefly the history of EIA's Fiscal Year 1983 budget request.

The table at Enclosure A summarizes EIA resource allocations at each major stage of the Fiscal Year 1983 budget process. As indicated, the initial request submitted by EIA was $80 million and 625 full-time equivalent (FTE) staff years. It was the intent of EIA to continue its basic ongoing activities into Fiscal Year 1983, absorbing the impact of inflation through efficiencies. The $80 million request also assumed the passage of the "EIA Amendments of 1981" which would exempt EIA from the requirements to conduct the Financial Reporting System, and to collect State level data in support of the Emergency Energy Conservation Act (EECA), and would allow other changes that would result in additional cost savings.

The Department approved and submitted a Fiscal Year 1983 request to the Office of Management and Budget (OMB) totaling $66.6 million. This budget proposed to reduce or eliminate funding for a number of activities contained in EIA's initial request and thereby achieve savings without disrupting essential data collection activities. Underlying the request was a theme of consolidating and streamlining many information systems. Activities reduced or eliminated include the extension of the Weekly Petroleum Reporting System to the refinery district level and universe file and frames development activities. In addition, several statistical collections would be cancelled or reduced in scope. These include the alternative fuels program, certain electric power systems, and State-collected heating oil data.

Model simplification activities would be cancelled or postponed, and the ability to prepare quick response analyses would be reduced. Computer equipment and services, editing and review of publications, and other program services related to these activities would be reduced proportionately. The request assumed that support for regulatory activities would be provided on a reimbursable basis.

The OMB gave EIA an allowance of $52 million. Within this level EIA would be required to support the Federal Energy Regulatory Commission (FERC) fully at the same level as in Fiscal Year 1982, or about $8 million, without reimbursement. Also included in the $52 million was $1.3 million for severance pay. The FTE staff year allowance was 415, a reduction of 169 from the Fiscal Year 1982 level of 584. The Department appealed for a resource level of $57 million and 478 FTE staff years. Final administrative decisions, as reflected in the pending Fiscal Year 1983 request to Congress, resulted in a funding level of $54.5 million and a FTE staffing level of 415.

The most significant programmatic change at this resource level is the elimination of mid- and long-term analyses. These were eliminated for two reasons. First, the uncertainties inherent in mid- and long-term projections together with a reduced Federal role in the energy sector make the continued allocation of the resources required to conduct such efforts unacceptable. Second, mid- and long-term projections are prepared by several sources other than the EIA. The estimates from these sources will provide a range of possibilities on mid- and long-term energy situations, much of the information being similar to that currently prepared by EIA. I would like to point out that EIA will continue most basic energy data series and will continue to satisfy energy information needs concerning issues requiring short-term analyses and projections having time horizons of up to five years.

Additional programmatic changes at the resource levels contained in the Congressional request include the elimination or reduction of certain data systems and the consolidation of various resulting publications. For example, the residential consumption survey will be done less frequently. The *Quarterly Report to Congress* will be eliminated; information contained in the report will continue to be available in the *Monthly Energy Review*. The Energy Emergency Management Information Program will be eliminated as a separate system; basic data series to monitor current trends, such as the *Weekly Petroleum Status Report*, and a capability for limited analytical work in support of emergency preparedness programs will be retained. Statistical standards and quality assurance activities will be reduced to a monitoring capability. Computer support, editorial and publications preparation, and administrative support will be reduced in proportion to program reductions.

In addition to Enclosure A, I am enclosing the following documents to aid your understanding of the pending request. Enclosure B provides a skill mix at the 595 full-time permanent (FTP) level for Fiscal Year 1982 on which last summer's reduction-in-force was based. It is premature in the normal planning cycle to have prepared an allocation for next year's skill mix requirements. The anticipated grade mix for Fiscal Year 1983 is shown in the Detail of Permanent Positions contained in the Fiscal Year 1983 Congressional justification for Energy Information Activities. The grade mix in Fiscal Year 1983 may differ from that shown because the effect of "bumping" on grades cannot be accurately predicted should a reduction-of-force be necessary. Let me assure you that EIA does not plan to initiate a reduction-in-force until the sense of Congress on the Fiscal Year 1983 budget is known. Enclosure C shows EIA's total funding, staffing, and contracts as a percent of total funding at various budget levels.

You asked about impact of these reductions on the quality, timeliness, and value of EIA's information products. The EIA obviously will not produce the same volume of information with the resource levels contained in the Congressional request as would be produced at the resource levels contained in the initial request to the Department. The Congressional request is structured to ensure that the information produced continues to be timely, relevant, and of high quality. In addition, the request is compatible with the Administration's anticipated Federal energy information needs, and the important goal of reducing Federal spending. EIA will, however, require legislation in addition to the changes proposed in the "EIA Amendments of 1981" to exempt the organization from the requirement to do mid- and long-term analysis.

I hope that this response sufficiently addresses your concerns about EIA's capability to perform its mission at the Fiscal Year 1983 budget level. Should you or your staff need additional information, please contact Bruce Dwyer at 252-6460.

Sincerely,

J Erich Evered

J. Erich Evered
Administrator
Energy Information Administration

Enclosures

Enclosure A

## ENERGY INFORMATION ADMINISTRATION
FY 1983 Budget Request
(dollars in thousands)

| | EIA Request to DOE | | DOE Request to OMB | | President's Budget | |
|---|---|---|---|---|---|---|
| | FTE | Amount | FTE | Amount | FTE | Amount |
| Collection, Production, and Analysis | | | | | | |
| Oil and Gas | 220 | 18,450 | 195 | 13,272 | 171 | 13,780 |
| Coal, Nuclear, Electric, and Alternate Fuels | 147 | 8,000 | 137 | 6,600 | 105 | 6,000 |
| Energy Markets and End Use | 132 | 5,149 | 122 | 4,850 | 62 | 2,100 |
| Program Direction | - | 18,526 | - | 16,905 | - | 12,759 |
| Subtotal | 499 | 50,125 | 454 | 41,627 | 338 | 34,639 |
| Program Services | | | | | | |
| Information Management Services | 12 | 14,546 | 12 | 12,446 | 10 | 10,000 |
| NEIC | 29 | 1,000 | 26 | 900 | 21 | 750 |
| Statistical Standards | 47 | 2,800 | 39 | 1,500 | 17 | 600 |
| Program Direction | - | 3,213 | - | 2,848 | - | 1,812 |
| Subtotal | 88 | 21,559 | 77 | 17,694 | 48 | 13,162 |
| Policy and Management | | | | | | |
| DOE Administrative Services | - | 6,406 | - | 5,781 | - | 4,254 |
| Program Direction | 38 | 1,910 | 33 | 1,450 | 29 | 1,145 |
| Severance pay | - | - | - | - | - | 1,300 |
| Subtotal | 38 | 8,316 | 33 | 7,231 | 29 | 6,699 |
| Total, EIA | 625 | 80,000 | 564 | 66,552 | 415 | 54,500 |
| Full-time permanent | (595) | | (536) | | (392) | |
| Other than full-time permanent | ( 30) | | ( 28) | | ( 23) | |

Enclosure B

### EIA Tentative Staffing Plan
### Permanent FTE

| | FY 1982 |
|---|---|
| Statistician and Mathematician | 104 |
| Economist | 73 |
| Engineer, Industry Specialist, Accountant | 72 |
| Computer Specialist | 76 |
| Operations Research Analyst | 60 |
| Information Specialist/Writer/ Editor | 29 |
| Program Analyst, Program Manager | 65 |
| Staff Support (Administrative, Secretarial, Clerical) | 115 |
| Administrator | 1 |
| TOTAL | 595 |

Enclosure C

### Energy Information Administration
### Contract Ratio

| | FY 1981 | FY 1982 | FY 1983 (Proposed) |
|---|---|---|---|
| Dollars............... | $90.4M | $78.9M | $54.5M |
| Personnel............ | 733* | 584 | 415 |
| Contracts as Percent of Total Dollars..... | 63% | 64% | 61% |

* Estimate of full-time equivalents. Full-time equivalent controls were not implemented until FY 1982.

## DEPUTY ASSISTANT SECRETARY
## ENERGY EMERGENCIES

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## ACTIVITY SUMMARIES

## OFFICE OF ENERGY EMERGENCY OPERATIONS

April 12, 1982

### Electric Power Vulnerability Assessment

**Description:** Assessment of the potential for disruption of the supply of electric power to military bases and defense industrial facilities by sabotage against the commercial electric power systems. Includes a series of case studies of selected defense facilities, with analyses of (i) the impact of power outages of various lengths on military effectiveness during mobilization or war, and (ii) the likely duration of outages resulting from various types of coordinated acts of sabotage against the power system. Also includes investigation of related issues such as intelligence estimates of threat, institutional responsibilities, state-of-the-art sabotage techniques, and replacement times for critical system components.

**Products:**

(1) Classified individual case study reports on 5 Air Force Logistics command bases and utilities serving them. (Complete by August 82)
(2) Classified reports on other military base case studies. (Complete September 82)
(3) Classified reports on four related issues named above. (Complete November 82)
(4) Classified report on complex of critical industrial facilities in Los Angeles area. (Complete October 82)
(5) Summary report (classified and unclassified versions).

**Issues:**

(1) Determining what level of risk is acceptable.
(2) Identifying the most cost-effective options for reducing risks where currently unacceptable.
(3) Assigning responsibility for implementing risk reduction measures to appropriate Federal agency or to other parties.
(4) Obtaining resources to implement mitigation measures.
(5) Resolving responsibilities for dealing with sabotage incidents and consequences, should they occur.

## Pipeline Vulnerability Assessment

Description: Assessment of the vulnerability of petroleum and natural gas pipelines to concerted sabotage attacks. The attacks may occur in time of peace or war or during the critical period immediately prior to declaration of war.

The purposes of the study are: (a) to determine how vulnerable our oil and gas pipelines are to sabotage attacks, (b) to evaluate the probable effects of successful attacks upon the nation's supplies of oil and gas, (c) to assess the probable effects upon the national security and the nation's economy and (d) to suggest methods for reducing the nation's vulnerability.

Products: A final report is scheduled to be completed by August 1983. Interim reports on special aspects of the problem will be issued from time to time as the work progresses.

Issues: Vulnerability Analysis: We have discussed sabotage of pipelines with approximately 80 individuals from the pipeline companies, trade associations, and various departments in the Federal Government and state governments. Attacks would have serious adverse effects upon oil and gas supplies but quantitative data is not available.

Development of such data requires the full cooperation of industry. In order that the pipeline companies will want to cooperate with us in performing the study (and to take appropriate actions to reduce the vulnerability) it is necessary that they be convinced that the threat of sabotage is real.

Response Plans:

The absence of the motivating intelligence information identified above is partially responsible for the delay in the development of response plans. Another factor of perhaps even greater importance is that uncertainty exists as to what organization has the legal responsibility to prepare and implement these plans.

For example some pipeline companies are looking to the Department of Defense for protection against sabotage attack while others look to the FBI. Neither of these agencies, however, believes it has this responsibility in peacetime.

## Presidential Permit Activities

Description: An electrical transmission line which will cross US-international borders must receive a Permit (Presidential Permit) from this office prior to construction and operation. Additionally, if the intention is to export electricity over this line, the applicant must also obtain what is known as an Export Authorization. To date approximately 70 Presidential Permits have been authorized. DOE's issuance of the Permit is based upon "public interest" considerations including:

1. Environmental Impact
2. Electrical Grid System Impact
3. National Security Implications
4. International Trade Policies

Products: There are 5 Permit applications presently being reviewed. There are 2 Permit Amendments presently being reviewed. A Permit can take between 6 months and 2 years to process. An Amendment can take between 1 month and 2 years to process.

Issues: Environmental Impact - Acid Rain Question, et al
Electrical Grid System Impact - affect on the reliability and stability of an electrical grid system.
National Security Implication Potential Impact of cut-off. Safe level of import. Dependency questions.
International Trade - Energy Trade Policies with Canada and Mexico.
Political sensitivity of major transmission line construction.

## Energy Emergency Impact Assessments

**Description:** Analyzing available information and obtaining additional information necessary to determine the likelihood and potential impacts of energy emergencies related to electric power, petroleum, natural gas and solid fuels.

**Products:** Assessment reports, monitoring reports and recommendations for mitigating the impacts of emergencies.

**Issues:** Obtaining current and relevant information on which a worthwhile analysis can be based with as little burden as possible on industries.

## Petroleum Inventory Analysis

**Description:** Responsible for assessment of the risk to supplies of crude oil and petroleum products, quantifying the preliminary impact of the petroleum shortage and recommending the appropriate action to mitigate such a shortfall. Conduct ongoing assessments of the adequacy of petroleum inventories, both crude and refined products, to meet projected demands. The purpose of these inventory assessments are to anticipate and apprise management of potential problem areas or trends which may adversely affect the marketplace.

**Products:**
(1) Supply/demand assessment reports
(2) Inventory status reports
(3) Recommendations to avoid potentially adverse inventory trends.

**Issues and/or Problems:**

(1) Increasing the rate of SPR buildup to offset declining private industry stock levels.
(2) Possible federal leasing of above ground or tanker storage of crude oil.
(3) Obtaining current inventory data.

# Energy Situation Reporting System (ESRS)

## Description

The Energy Situation Reporting System has two basic elements, the Energy Situation Report, and a supporting data base, called "Tables". The Energy Situation Report is a daily publication. It includes highlights of recent events affecting U.S. energy supply availability, data on energy supply and demand, and items which may develop into problems in the near future.

The report is divided into two major sections: (1) Highlights and Early Warning Items, and (2) Background Information. The latter section includes separate subsections with current general information on crude oil and petroleum products, natural gas, coal and other solid fuels, electric power, weather trends and forecasts, and special topics as noted in individual items in the Highlights and Early Warning section.

Additional background data is available on the "Tables" system, which has been derived from governmental and non-governmental data sources.

## Products

The daily publication of the Energy Situation Report, and the availability of the "Tables" system, are the current products of this activity.

## Issues

The Energy Situation Reporting System is still in the developmental state. Improvements are being made to the format of the daily report, and an exercise is underway to enhance the system by giving it improved analytical capabilities. The issue here is whether there is sufficient staff available to give the analytical enhancement effort the priority it deserves. Those who are currently assigned to the Enhancement Task Force have other responsibilities which are restricting their time for intensive involvement in the task.

## EMERGENCY RESERVE PROGRAMS

## OPERATIONS AND IMPLEMENTATION

DESCRIPTION: The Emergency Reserve Programs include three separate, but interrelated National Defense Executive Reserve units:

- -- Emergency Electric Power Administration (EEPA)
- -- Emergency Petroleum and Gas Administration (EPGA)
- -- Emergency Solid Fuels Administration (ESFA)

These executive reserve units, authorized under the Defense Production Act of 1950 (DPA), are intended to monitor and, if necessary, direct the operations of the electric power, petroleum and gas, and solid fuels (coal/coke) industries in the event of conventional or nuclear war, or in response to significant threats to the Nation's security. The role of DOE is to insure that these units are prepared by instituting and maintaining suitable recruitment, training and administrative programs. From 1977 (when the units were transferred to DOE from the Department of the Interior) until recently, these units were dormant. The major mission in FY 1982 and FY 1983 is to revitalize them and bring each to a state of adequate preparedness.

PRODUCTS: It is anticipated that during FY 1982 and FY 1983 the following major events or activities will be accomplished or undertaken--

- -- Conduct a series of workshops to examine and resolve key issues
- -- Complete the reorganization and restaffing of EEPA, EPGA & ESFA
- -- Revise and distribute operating handbooks for each reserve unit
- -- Conduct initial training of reservists at the regional level
- -- Conduct individual unit and joint field exercises

ISSUES AND PROBLEMS:

1. The paramount issue is whether reserve units may be employed in situations other than those strictly defined by DPA, e.g., could the EPGA reserve unit be wholly or partially mobilized (or otherwise employed) in the event of a serious oil embargo? As a consequence of a natural disaster?

2. Other significant issues surround the responsibilities and liaibilities of reservists with regard to conflict of interest, financial disclosure, and antitrust provisions of federal statutes and regulations.

## CONTINUITY OF GOVERNMENT (COG) PROGRAM

## OPERATIONS AND IMPLEMENTATION

### DESCRIPTION

The Continuity of Government Program is a government-wide program with the purpose of assuring essential Federal government activities during and after an attack on the United States or other National emergencies. This program is directed by the National Security Council (NSC) and is coordinated by the Federal Emergency Management Agency (FEMA), however the responsibility for its planning and implementation rests with the Federal departments and agencies.

This program includes the development and maintenance of a detailed agency COG plan, the formation and maintenance of special emergency teams at headquarters and regional levels; the use of Executive Reservists; development of emergency communications and arrangement for executive succession and delegations of authority.

The major mission in FY 82 and 83 is to continue to develop the COG plans and structure in accordance with the new COG concepts (classified) as issued by the President.

### PRODUCTS

It is anticipated that during FY 82 and 83 the following major events or activities will be accomplished or initiated.

-- DOE COG Program Requirements Analysis in relation to new concepts.

-- Development of a comprehensive Departmental COG Directive.

-- Development of a Headquarters and regional COG coordination network.

-- Development of National level COG Plan to include a training program.

-- Development of Regional COG Plans to include training programs.

### OUTSTANDING ISSUES

-- Development of Specific COG control and reporting relationships for the DOE regional operations offices and the the Office of Energy Emergencies with the States and FEMA.

-- Maintenance of an effective Department wide program in light of reorganization and budgetary realignments.

## Emergency Mobilization Preparedness Board

Description:

The Emergency Mobilization Preparedenss Board (EMPB) was established by The President on December 17, 1981, with the following instruction:

> The Board is to prepare for my review a draft Presidential Decision Document to include a statement of national policy on emergency mobilization preparedness and a plan of action consistent with this policy.

This Board is chaired by the National Security Advisor.

Twelve working groups have been established, with the Department represented on nine. The Under Secretary is the Department's representative on the Board and Deputy Assistant Secretaries or Office Directors are the Department representatives on the working groups. Also, the Department is represented on several task groups under the various working groups. The Department has also established an EMPB Coordinator to support this effort.

Products:

It is anticipated that during FY 82 and 83, the following major activities will be initiated and/or accomplished:

- -- Complete working group policy statements inputs;
- -- Coordinate Departmental review of the Presidential Decision Document; and
- -- Assist the development of a fully coordinated Department implementation plan for the emergency preparedness consistent with the Presidential Decision Document.

Issues/Problems:

- -- Maintenance of the Executive level of involvement in the implementation of any EMPB directed emergency preparedness activities.
- -- Establishment of a concise, accurate and maintainable base of essential energy information. Classified data files maintenance is a critical item.
- -- Support for the significant staff involvement that had not been included in any anticipatory budget. FEMA expects each agency to financially support its EMPB obligations.

## COMMUNICATIONS FOR ENERGY EMERGENCIES
## To Support Effective Information Exchanges

### Description:

Effective response to an energy emergency requires extensive information and data exchanges through rapid telecommunication channels among the pertinent energy supply organizations, the affected states, FEMA Regional Centers and the DOE Regional Management Offices. State Energy Offices and State Disaster Control Centers or Emergency Operations Centers serve as the point of state contact. Currently, communications among these parties is limited to the telephone and an electronic mail system that currently connects most of the State Energy Offices to the Office of Energy Emergency Operations. The intergration and enhancement of the existing communication systems and the addition of both some links and equipment are necessary to assure that timely and effective two-way communication of information. Funds for annual maintenance charges are necessary such that any telephone or other equipment is properly maintained. It is the intention of this activity to assure the most complete use of the existing DOE communciations systems and the FEMA regional emergency communications links.

### Products:

It is anticipated that during FY 82 and 83 the following major events or activities will be initiated and/or accomplished.

- -- Extend telecommunications links to all State Energy Offices and the Emergency Operations Centers or Diaster Control Centers of the states.
- -- Establish communications links from the DOE Regional Management Offices (operations offices) to State Energy Offices and Emergency Operations Centers in the states in the applicable region.
- -- Obtain terminals and other equipment to provide a DOE Hq. access to the FEMA emergency communication systems.
- -- Develop necessary enhancements to existing communication systems to facilitate information transfer including communications links between State Emergency Operations Centers and the DOE Operations Offices.
- -- Develop detailed reference guides on emergency communication procedures for use by states and other parties during emergencies.
- -- Evaluate the need for the State Energy Offices to receive any classified national security information and the costs of such a program to include security clearances, secure data links and the storage of this information.

### Issues/Problems:

- -- Resolution of DOE Operations Offices' role in regard to relationships with states and the FEMA Regional Offices during energy emergencies planning and emergency response periods.
- -- Limitations on staffing to implement this activity.
- -- Assuring the reliability of the communication systems.

## STATE AND LOCAL GOVERNMENT AND INDUSTRIAL LIAISON PROGRAM

Description:

The liaison program provides a focal point within the Office of Energy Emergencies (EE) for establishing and maintaining coordination with state and local governments, other Federal agencies and key segments of the private sector on energy emergency programs. It also provides a forum for continuing dialogue with diverse groups on key issues, fosters cooperation and consistency in planning at all levels, facilitates information transfer between groups and promotes private and public sector involvement in Federal energy emergency planning activities.

This program initiates and implements outreach programs, expands and maintains communication networks for timely information exchange, evaluates the impacts of DOE programs on outside groups by inviting participation on in-house task forces, and maintains directories of federal and non-federal officials with energy emergency responsibilities.

Products:

During FY 82 and 83 the following major events or activities will be accomplished or undertaken.

- Conduct a series of workshops involving industry, state, local, and consumer representatives on a wide range of energy emergency issues
- Conduct periodic roundtable discussions with public interest groups
- Foster development of a prototype coordinating council system among state and local governments within a given geographical area, such as a Petroleum Allocation for Defense District (PADD)
- Disseminate reports and other information on energy emergency preparedness policy, programs, etc., to program constituents
- Carry out a series of informal, interactive meetings between EE officials and industrial associations and representatives to encourage private sector initiatives and feedback on Federal options under consideration
- Expand current communication links between DOE, states, and other emergency managers
- Update and expand energy emergency contacts directories to include key officials for state government, Federal agencies and industry by energy sector.

Issues/Problems:

- Maintaining a high level of interest in energy emergency issues in a non-emergency environment
- Due to staffing and budget constraints at the Federal, state, and local levels, maintaining on-going coordination efforts and wide-range participation without contract funding assistance
- Developing industry contacts directory in a timely manner without contractor support.

# ENERGY ASPECTS OF NATIONAL SECURITY

## DESCRIPTION

This program addresses the many cross cutting and linking activities that are essential elements of the National Security Program. Most important are the continous communications with Intelligence Agencies, and active liaison with the Federal Emergency Management Agency. Nearly every aspect of this program is highly classified, therefore details cannot be included in this program statement.

This program includes detailed analyses of the energy aspects of various National Security Plans and the preparation and coordination of Department responses. Designated individuals peruse routinely certain intelligence documents to ascertain the possible impacts of world events on the energy supply situation. Preparation of briefings and energy situation analytical documents are integral to this activity. Liaison is maintained with the Department of Defense in the communications area to assure compatibility of communication systems for the nation s defense with those required for resolution of energy emergency situations.

## PRODUCTS

It is anticipated that during FY 82 and 83 the following major events or activities will be accomplished or initiated:

-- Timely and complete responses to FEMA, DOD and National Security Council resulting from reviews of emergency plans and other similar documents.

-- Enhanced liaison with all elements of FEMA regarding National Security activities and other emergency preparedness functions.

-- Continuing systematic review and analysis of energy intelligence documents and the development of executive briefings as appropriate.

-- Development of policy positions regarding the resolution of conflicting requirements as between DOD communication systems and those employed by the private and public energy supply organizations.

-- Continued coordination with DOE communication experts in developing Departmental inputs to the power line carrier proceedings of the Federal Communications Commission.

## ISSUES/PROBLEMS

-- Acquisition and maintenance of the required number of high level security clearances.

-- The limited physical areas in the Forrestal Building certified for highly classified discussions.

# SECURITY PROGRAM FOR ENERGY EMERGENCIES

## DESCRIPTION

The operation of a centralized security program for both staff operations and the emergency programs is crucial for effective response by the Office of Energy Emergencies to national energy emergencies. This program encompasses personnel security, control of classified documents, required physical security operations, security procedures for electronic equipment, procedures for handling security violations, derivative and original document classification responsibilities and the formal visit/access program for staff members visiting other agencies or vice versa. Additionally, coordination is provided for certain special clearance access procedures such as SCI, NATO, COSMIC.

## PRODUCTS

During FY 82 and 83 it is anticipated that the following events or activities will be initiated and/or accomplished:

-- Operation of a formal OEE Headquarters TOP SECRET Control System for the Office of Energy Emergencies.

-- Maintenace of Classified Document Control System for the Office of Energy Emergencies.

-- Development and maintenance of OEE security policy guides and plans.

-- Maintenance of control systems for classified document courier authorization and other special emergency identification badges.

-- Development of an OEE central classified reference system for DOE essential prepositioned records for the continuity of government relocation sites.

-- Maintenance of computer data files for the security program to facilitate quick reaction capability in the headquarters with printouts at the relocation sites.

## ISSUES/PROBLEMS

## EMERGENCY OPERATIONS

### DESCRIPTION

This program addresses the many preparedness actions required for effective response to energy emergencies and the emergency response (operations) activities during actual emergencies. The most important continuing activity of this program is the identification and training of personnel assigned to energy emergency operations teams.

Included in this program is the receipt, docketing and processing of application for emergency electric power interconnection, power delivery and/or generation under Section 202(c) and 202(d) of the Federal Power Act. Such applications must be analyzed and decisions recommended in an expeditious manner.

The development, maintenance and 24-hour-a-day operation of an Alert Coordination Officer System, so as to assure the ability to receive emergency alerts at all hours is an integral element of this program. The determination, acquisition and maintenance of the needed reference documents for emergency operations is a continuing functional activity of this program. In addition, the establishment and maintenance of an Energy Emergency Operations Center is a function of this program.

### PRODUCTS

It is anticipated that during FY 82 and FY 83 the following major events or activities will be accomplished or initiated:

-- Preparation of a Federal Register Notice and other appropriate public information material announcing the Department's Energy Emergency reporting number.

-- Identification and designation of emergency operating team cadres.

-- Continous maintenance of and the addition of appropriate new materials and facilities to the Alert Coordination Officer System.

-- The development and acquisition of needed reference documents for energy emergencies response actions.

-- The establishment and maintenance of an Energy Emergencies Operations Center Facility in the Forrestal Building.

-- The development of Standard Operating Procedures for transition from normal to emergency operations and for the conduct of emergency operations.

-- The development of an energy emergencies reporting manual.

-- The development and maintenance of an ongoing training program for personnel assigned to emergency response cadres.

### ISSUES/PROBLEMS

DEPUTY ASSISTANT SECRETARY
ENERGY EMERGENCIES

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ACTIVITY SUMMARIES

OFFICE OF
ENERGY CONTINGENCY PLANNING

April 15, 1982

## IEA SUPPLY RIGHT PROJECT

### DESCRIPTION

The supply right project is a survey of options such as import quotas or tariffs that the USG can implement to reduce or eliminate the likelihood that an allocation obligation would be incurred when the IEA emergency sharing system is triggered. An allocation obligation is the amount of oil above or below a country's supply right, that a country is obligated to offer to the IEA's emergency sharing system.

### PRODUCTS/ESTIMATED COMPLETION DATE

- Interim products are:
  - -- An options paper containing pros and cons as well as analytical backup -- due the last week of July.
  - -- Interim action plans for each option outlining the procedures and resources needed for putting an option into a state of readiness -- due the last week of August.
- A decision memo upon which the Administration can determine a policy path, due September 1982.
- Final products will be additional or revised action plans consistent with decision memo conclusion.

### ISSUES AND/OR PROBLEMS

The issue not addressed in this project is the basis upon which the Administration should implement a mechanism to reduce or eliminate an allocation obligation. Moreover, if an allocation obligation or right is incurred, the fair sharing project examines options to deal with the situation.

## IEA FAIR SHARING PROJECT

### DESCRIPTION

If the Emergency Sharing System (ESS) of the International Energy Program (IEP) is activated, the U.S. could incur an allocation obligation. The Government must, therefore, maintain the ability to share oil internationally during a declared emergency triggering the ESS. We have, therefore, structured a project to develop contingency plans to support the voluntary and mandatory offer systems should the U.S. have an allocation obligation.

A fair sharing system is not required under the IEP. However, the International Energy Agency recommends, and the Administration has agreed, that countries should create an atmosphere whereby any requirement to share oil is met and any losses incurred by oil companies are shared equitably.

### PRODUCTS/ESTIMATED COMPLETION DATE

- Preliminary paper on options to share losses under voluntary and mandatory phases of the ESS - April 15.
- Final options paper - May 28.
- Comprehensive cost/benefit analysis - July 30.
- Preliminary action plans for workable options - July 30.
- Decision memo - August 17.
- Final action plans - September 30.

### ISSUES AND/OR PROBLEMS

Members of the DOE task force are approaching the fair sharing problem from widely diverging perspectives. In addition, there remain differing estimates of: the existence and size of probable allocation obligation; the existence of potential barriers to voluntary offers; the ability to allocate at market price; the necessity to go to the mandatory system; and the losses, if any, which need to be shared. The final options paper will reflect a consensus on these difficult problems.

## IEA ALLOCATION SYSTEM TEST-4

### DESCRIPTION

Periodically the IEA Secretariat, in concert with IEA member and the Reporting Companies (i.e., oil companies which participate directly in IEA activities and have signed the voluntary agreement on the International Energy Program), conduct an exercise of the IEA Emergency Sharing System in order to assess the operational effectiveness of the system, to train persons in the operation of the system, and to evalute the ability of IEA nations to respond to disruptions including the effects of domestic response measures on the international sharing system. These exercises are known as Allocation System Tests.

This project encompasses EP's involvement in both the planning for and execution of the IEA's fourth Allocation System Test (AST-4). Planned activities include: overall exercise design--EP is a member of the U.S. delegation to the international AST-4 Design Group; development of U.S. exercise goals and objectives--what does U.S. intend to get out of the exercise?; selection and training of U.S. exercise participants--both "players" and "test evaluators" will need to be prepared; preparation of necessary econometric models needed to simulate disruption impacts; data preparation coordination--EIA has the lead to provide exercise data but oversight is required; and arrangement for physical facilities and communication equipment required for the exercises--in coordination with DOE AS/MA.

### PRODUCTS/ESTIMATED COMPLETION DATE

Various issue papers, briefing books for meetings, and like products will be required: in connection with the development of objectives and parameters of the exercise; with regard to both the international design effort and the development of U.S. exercise goals and objectives. These will be produced on an ad hoc basis as the design effort proceeds.

Draft AST-4 Test Guide -- September 1982.

### ISSUES AND/OR PROBLEMS

The nature and extent of U.S. participation in the exercise are not yet settled. The extreme alternatives are: (1) use limited resources and participate in the exercise without simulating the U.S. Government response activities, and (2) perform an extensive exercise attempting to simulate most U.S. response activities and involving States. Preparation for the test depends upon this decision.

Also, all of the issues associated with the development of the U.S. NESO Management Plan affect the preparation and execution of the exercise.

# IEA NATIONAL EMERGENCY SHARING ORGANIZATION PLAN

## DESCRIPTION

The term "National Emergency Sharing Organization" (NESO) was coined by the IEA to denote the body within each IEA country responsible for, in general: (1) liaison with the IEA on matters of international oil allocation during an emergency; and (2) national oil emergency matters. By Executive Order, the Department of Energy functions as the U.S. NESO, and the ongoing missions of a number of DOE Offices include duties which carry out NESO responsibilities.

The goals of this project are: to identify the discrete operations which are implied in the general definition of NESO responsibilities; to associate these operations with specific Federal Governmental offices (some may not be DOE offices); to identify the flow of operations between offices in performing NESO duties; to suggest new or modified operating procedures, system flows, communications links which will enhance performance; and to document these operations, responsibilities and systems.

This project will be carried out in conjunction with DOE's preparation for an exercise of the IEA Emergency Sharing System, AST-4, since preparation for such an exercise will emphasize NESO operations.

## PRODUCTS/ESTIMATED COMPLETION DATE

Interim NESO Management Plan (covering data submissions to IEA, certain interruption impact analyses, and DOE antitrust activities) -- April 30, 1982.

Additional activity descriptions and finalization of the "plan" to be completed incrementally as issues are resolved (see below).

## ISSUES AND/OR PROBLEMS

Full identification and documentation of DOE NESO duties depend upon major policy/program management decisions concerning: the nature and design of a "fair sharing" scheme; the involvement of the U.S. Government in seeking voluntary offers (which is affected by the "fair sharing" decision); the type of mechanism (if any) to be used in the "mandatory offer" phase; the use of the SPR to meet IEA obligations; and, the use of other mechanisms--for example, an import quota or a tax--to affect oil availability or the demand for petroleum during a disruption.

## NATO TEST/EXERCISES

### DESCRIPTION

The Office of Energy Emergencies, as part of its responsibility to support the U.S. commitment to the North Atlantic Treaty Organization (NATO) Civil Emergency Planning Organization, is in the process of preparing for an upcoming test called WINTEX-CIMEX. All NATO members are expected to participate.

Liaison with the following organizations will be exercised: (1) the Petroleum Planning Committee (PPC) which has the task of developing plans for the distribution of available oil supplies among NATO members if there are supply shortages during crisis or war and (2) the NATO Wartime Oil Organization (NWOO) which is NATO's emergency petroleum organization.

As part of the National Oil Board (NOB) Operations Manual project (see separate summary), a test of the NOB will be conducted by DOE in August 1982. This will result in the development of a detailed test guide in late 1982.

### PRODUCTS/ESTIMATED COMPLETION DATE

WINTEX-CIMEX will take place in February 1983. It will provide the opportunity for the U.S. to staff its NOB round-the-clock. The objectives include testing the oil crisis management procedures and testing the interface NOB and NWOO, and NOB and NATO executive boards. Several reports will be prepared for the test including exercise, control and evaluation plans and an after-action report.

### ISSUES AND/OR PROBLEMS

None.

## NATO NATIONAL OIL BOARD OPERATIONS MANUAL

### DESCRIPTION

The United States is obligated by the North Atlantic Treaty to respond to various peacetime and wartime conditions affecting members of the North Atlantic Treaty Organization (NATO). Within the NATO organization, the Petroleum Planning Committee (PPC) has the task of developing plans for the distribution of available oil supplies among NATO members if there are supply shortages during crisis or war. These plans would be activated by a decision of the North Atlantic Council (NAC).

The NATO Wartime Oil Organization (NWOO) is NATO's emergency petroleum organization and would implement plans activated by the NAC. Like the International Energy Agency (IEA), NWOO's international operations are highly dependent on the supply of national emergency programs. NATO refers to national oil authorities as National Oil Boards (NOB), which are analogues to the National Emergency Supply Organizations (NESO) of the IEA. When the NWOO is operational, NOB's provide the NWOO with information on oil requirements and available supplies, implement NATO's international oil supply program pursuant to national authority and act as the U.S. liaison agency for energy conacts with the NATO countries.

### PRODUCTS/ESTIMATED COMPLETION DATE

The Office of Energy Emergencies (EE) has established an intra-agency task force to coordinate the development of these NATO contingency plans. As part of this process, we are assessing our role in support of the NWOO. A key product of this assessment will be the development of the NOB operations manual. When completed, it will contain the organizational structure and various operating procedures required to meet our NATO commitment (with emphasis on NATO oil supply and distribution schemes). We anticipate completing an interim manual by June, after which it will be circulated to an interagency group for comment. After the necessary changes have been made, we will conduct (during August 1982) an internal DOE test of this plan. This DOE test will provide a basis to prepare for participation in a NATO-sponsored test scheduled for early 1983, which will require a simulation of the U.S. NOB operations.

### ISSUES AND/OR PROBLEMS

At this stage of development, no substantial issues or problems have been identified. However, we expect that there will be NATO energy policy related issues presented at the various PPC meetings and training sessions. These policy issues will be handled in coordination with other relevant DOE offices.

## STRATEGIC PETROLEUM RESERVE: LOGISTICS

### DESCRIPTION

The SPR presently has five sites from which it can distribute crude oil. These sites are connected to interstate and local pipelines and waterways. The drawdown capability of each site is shown below. It should be noted that these capabilities will increase as the amount of oil fill increases.

| | Distribution System | | |
|---|---|---|---|
| Site | Pipeline | Tanker Terminal | Drawdown Rate (thousand bbl/d) |
| Bryan Mound | Seaway | Seaway | 387 |
| West Hackberry | Texoma | Sunoco | 402 |
| Sulphur Mines | Texoma | Sunoco | 100 |
| Bayou Chactaw | Capline | DOE/St. James | 240 |
| Weeks Island | Capline | DOE/St. James | 590 |
| | TOTAL | | 1,719 |

The areas where SPR oil will actually be delivered depends upon the nature of the shortage and the sales method and drawdown policy existing at the time of a drawdown. Detailed procedures related to development of drawdown policies and operational requirements will be developed by late summer 1982.

### PRODUCTS/ESTIMATED COMPLETION DATE

The SPR's logistics system is described in its annual report. The SPR continually evaluates the current capabilities of both SPR and industry's petroleum distribution systems. Currently, as part of on-going analysis of SPR's drawdown capability, the SPR is performing a comprehensive study that will update its distribution capability. The updated documentation is expected to be completed within one year.

The conducting of a "Phase B" exercise requires the development of a SPR Distribution Management Manual as the vehicle by which detailed procedures and forms for selling SPR will be developed and tested. It does not appear that the Phase B exercise will occur before September 1982.

### ISSUES AND/OR PROBLEMS

There is great flexibility in the SPR logistics system as it consists of centralized storage in the Gulf Coast which is connected to the normal crude oil distribution system, namely, the three major interstate pipelines. DOE feels that this logistics system will be fully effective during a supply emergency.

Currently, however, the three pipelines are decreasing their capacities due to substantial reductions in the level of crude oil imports. If that trend continues, actual SPR capabilities may, at some time in the future, be restricted by lessened pipeline capacities.

## STRATEGIC PETROLEUM RESERVE: "PHASE B" EXERCISE

### DESCRIPTION

A Phase "B" test of the Strategic Petroleum Reserve (SPR) will be held as part of the preparation of the SPR Distribution Manual. Tests of the SPR have been divided into three phases and several levels. Phase A tests refer to physical drawdown tests which demonstrate the integrity and capacity of the equipment and sites. Two successful such tests have been conducted in the past. Phase B tests refer to tests of management, administration and non-physical procedures. Phase C tests combine both A and B type tests. Tests may also be conducted at several levels: a single site (such as Bryan Mound), a group of sites (such as the Capline Group) or all of the sites. The test currently planned will cover management, policy and administrative procedures for the entire SPR. It will simulate two-procurement cycles, the equivalent of about a two months sales period.

### PRODUCTS/ESTIMATED COMPLETION DATE

This exercise will provide the opportunity for responsible staff to participate in a simulated crisis environment. It will also validate the procedures now being developed in the SPR Distribution Management Manual. Several reports will be prepared for the exercise including exercise, control and evaluation plans, and an after-action report. The exercise is scheduled for no earlier than September of 1982. Plans will be issued in the summer of 1982 and an after-action report in the winter.

### ISSUES AND/OR PROBLEMS

It has not been determined to what extent and how the procedures which lead to a recommendation and use of the SPR will be tested. These procedures include the situation analyses, development and evaluation of deployment and response options, and review of recommendations within DOE.

## STRATEGIC PETROLEUM RESERVE: DRAWDOWN POLICY

### DESCRIPTION

This project will examine the objectives of SPR use policy, both prior to and during an interruption. For example, prior to an interruption, U.S. objectives may include: (a) deterrrence, (b) influencing preparedness on the part of our allies, and (c) influencing private sector preparedness. During an interruption, U.S. objectives might include: (a) limiting economic loss, (b) maintaining national security, and (c) minimizing policy conflicts between U.S. and allied nations. The project will examine SPR use policy in terms of its contributions to national objectives, and in the context of overall energy emergency policy. Consideration will be given to the interactions between SPR use policy and: (a) private sector inventory policies and (b) oil stockpile policies of other IEA signatories.

Specific alternative SPR use decision rules will be examined and evaluated, possibly using war gaming techniques. In addition, consideration will be given to SPR declaratory policy and to other means by which the U.S. can signal and influence the actions of other countries and the private sector.

### PRODUCTS/ESTIMATED COMPLETION DATES

Draft Workplan. 5/15/82

### ISSUES AND/OR PROBLEMS

(1) What are the objectives of SPR use policy?

(2) How should SPR drawdown policy be structured to take into account the dynamics of a supply interruption and the lags involved in the SPR process?

(3) How can SPR use policy be integrated with other energy emergency actions?

(4) What are the gains from, and the feasibility of, developing a cooperative stock drawdown policy with other IEA signatories?

(5) How does SPR use policy influence private inventory decisions?

(6) What are the advantages and disadvantages of a decision rule for SPR use formulated in advance of an emergency? What would it be based upon?

(7) How can SPR use policy best be tested or validated so that the exercise (itself) contributes to policy objectives which apply in the absence of an emergency (e.g., deterrence)?

## SHORT-TERM ADEQUACY OF OIL STOCKS

### DESCRIPTION

An examination will be made, on a quick turnaround basis, of recent changes in, and present levels of, primary, secondary, and tertiary domestic oil stocks and foreign stocks. A rough projection will be made of changes in stocks over the next year. An assessment will be formed as to whether stocks are adequate to deal with a near-term supply interruption and, if not, what measures could be taken to provide a rapid buildup of inventories.

### PRODUCTS/ESTIMATED COMPLETION DATES

(1) Preliminary report. 6/30/82

(2) Final report. 8/31/82

### ISSUES AND/OR PROBLEMS

(1) Is there a current reduction in private inventories in progress? Is it concentrated at the primary, secondary, or tertiary level? Estimate its extent. What is happening to foreign stocks?

(2) What level of stocks (public, private, domestic, foreign) is adequate for dealing with a supply interruption in the near term?

(3) What is the level of stocks that are currently available, and projected to be available over the next year, to mitigate a supply disruption (that is, stocks over and above normal working requirements)? What percent utilization of available capacity does that represent?

(4) What measures would be most effective to bring about a short-term increase in stocks?

(5) If the Federal government were interested in a monitoring program for secondary and tertiary petroleum inventories, how could it best be designed and conducted?

## INCENTIVES FOR PRIVATE OIL STOCKS

### DESCRIPTION

An explanation of factors influencing private oil inventory decisions. An evaluation of alternative Federal policies for encouraging a buildup of private petroleum safety stocks (stocks above normal working requirements) during normal market conditions and use of those stocks during supply emergencies. A set of plausible Federal incentive programs will be identified. Estimates will be made of the impact of each program on private stocks and of the year-by-year budgetary costs.

### PRODUCTS/ESTIMATED COMPLETION DATES

(1) A model for estimating equilibrium private petroleum inventories and for estimating the effect on those stocks of alternative Federal incentive programs. 9/15/82

(2) Preliminary report. 10/15/82

(3) Final report. 12/15/82

### ISSUES AND/OR PROBLEMS

(1) What are the principal factors influencing private oil inventory behavior? Sensitivity to each?

(2) What is the optimal mix of public and private stocks over the longer-term?

(3) What are the impacts of public actions (especially SPR policies) on private stock decisions?

(4) What current disincentives exist limiting private stocks?

(5) What is the least-cost method of encouraging the private sector to hold larger discretionary inventories over the longer term?

(6) What restrictions, if any, on the use of Federally subsidized oil would be justified?

(7) How should an incentive program be designed so that only incremental stocks (above what would otherwise be held) are subsidized?

(8) How should the program be designed to keep administrative complexity/cost to an acceptable level?

## PUBLIC INFORMATION PLAN

### DESCRIPTION

The public information plan, when completed will consist of the following:

- Interim Emergency Public Information Plan

  The Interim Emergency Public Information Plan will consist of a set of public information procedures developed within the framework of DOE's existing organizational structure and information products. The IEPIP will include detailed information on existing resources and the ways in which they can be utilized to inform the the public during energy emergencies. It will be in force until superceded by the final plan (below), which will contain more exhaustive procedural and policy information for dealing with an energy emergency.

- Emergency Public Information Plan

  Includes procedures to be followed to provide timely, accurate, and consistent information to the public about the extent and impact of an energy emergency and the actions the public, State, and local Governments might take in coping with such an emergency. It will also seek to educate the public about U.S. vulnerability to petroleum supply interruptions and Government policies and procedures for ameliorating the effects of such interruptions. The plan will incorporate an Operations Manual which will detail data sources, target audiences, data verification methods, and internal DOE procedures for data dissemination, and procedures for coordination with external agencies and associations.

  An intraagency Task Force has been established to develop both the interim and final plans. To date, members have been tasked with providing assessments of their organization's information flow and data/analytical products appropriate for public dissemination.

### PRODUCTS/ESTIMATED COMPLETION DATE

-- Interim Emergency Public Information Plan -- April 26, 1982
-- Emergency Public Information Plan -- September 30, 1982
-- Public Information Operations Manual -- September 30, 1982

### ISSUES AND/OR PROBLEMS

The persistent theme of public and State criticisms of DOE information management practices concerns the lack of a single spokesman to enunciate the dimensions, depth, and duration of a crisis, and clarify the roles of the Federal and State Governments in dealing with energy shortages. How to identify such a single spokesman, and reduce the many conflicting or confusing pronouncements by various Federal officials in an emergency, is a critical issue.

## PUBLIC INFORMATION OPERATIONS MANUAL

### DESCRIPTION

One of the products associated with the Emergency Public Information Plan, the manual will contain specific information as:

- DOE emergency organization to conduct public information activities.
- Target audiences and data required by each audience.
- Specific data items for distribution, with data item descriptions.
- Data verification/validation procedures.
- Methods for rapid communications/liaison with the States and other Federal agencies.

### PRODUCTS/ESTIMATED COMPLETION DATE

- Emergency Public Information Plan -- September 30, 1982

### ISSUES AND/OR PROBLEMS

- None

## DEFENSE PREPAREDNESS
## JONES ACT WAIVERS/PANAMA CANAL

### DESCRIPTION

To implement procedures jointly with Bureau of Customs, Department of Treasury, which would preimplement or otherwise provide for a semi-automatic issuance of waivers of the Coastwise trading laws prohibiting the use of foreign flag vessels from engaging in domestic transport. The underlying reason for this action is to prepare a contingency response plan which deals with a possible closing of the Panama Canal and/or the interdiction of the trans-Panama crude oil pipeline. If this were to occur, Alaskan crude oil would have to transit around the canal to Eastern U.S. ports and for efficiency would have to employ VLCC's (very large crude carriers) and ULCC's (ultra large crude carriers), most of which are foreign registry.

### PRODUCTS/ESTIMATED COMPLETION DATE

Project is just being initiated. A letter will be drafted to Bureau of Customs outlining our intent, and inviting their participation in the drafting of either an interagency agreement or joint concurrance in procedures.

- Letter by April 30, 1982
- Preliminary procedures by May 15, 1982.
- Final procedures/Agreement tentatively planned by July 1, 1982.

### ISSUES AND/OR PROBLEMS

The Bureau of Customs has a strong predisposition against any prejudgement of potential requests, as well as any indication that a waiver will be granted. The U.S. Maritime Union has an exceptionally strong lobby with vast congressional support, and Customs is aware of this. At the least, however, we may be able to establish the paperflow and identify the key offices, which would help reduce processing time.

## DEFENSE PREPAREDNESS
## DPA PLAN/DEFENSE ENERGY REQUIREMENTS

### DESCRIPTION

In accordance with instruction recently obtained from the DAS/EE, the Plans Development and Testing Division, Office of Energy Contingency Planning, has begun to assemble an Interagency Task Group for the purpose of preparing a comprehensive procedures manual which will replace current regulations dealing with allocation of crude oil, petroleum products and coal to the DOD under the DPA. This procedures manual will set forth the various action offices, the pertinent authorities and the data requirements necessary to ensure an orderly and expeditious processing of DPA requests. The implementation of this procedural manual will negate the need, at this time, for a general DOE/DOD Memorandum of Understanding.

### PRODUCTS/ESTIMATED COMPLETION DATE

- Interagency Task Group assembly should be completed by mid-May.
- Preliminary internal DOE procedures by April 30, 1982.
- Due to the complexity of coordinating a finished document with a growing number of Federal agencies becoming involved with the Task Group, a date for the completion and acceptance of the Interagency Procedures Manual is uncertain. We will press to have it completed near the end of July, 1982.

### ISSUES AND/OR PROBLEMS

Associated with this item is the rescission of the current regulation on supplying DOD with crude oil and petroleum products. The Federal Register Notice of Intent should be completed by April 15, 1982.

## DEFENSE PREPAREDNESS
## MAJOR MILITARY EMERGENCY PLANNING

### DESCRIPTION

In addition to the DPA and waiver of the Jones Act plans described separately, this office is pursuing these additional defense related activities:

- DPA amendment; dialogue with DOT on transport claimancy program; coordination of DPA activities with revitalization of the Executive Reserve Programs; participation in DOD's Military Traffic Management Command's (MTMC) military transport COREX (contingency response) exercises; participation on Defense Energy Action Group; participation in DOD's Studies, Analysis and Gaming Agency's (SAGA) FUELEX energy crisis simulation; Memorandum of Agreement (MOA) with DOC delineating DOE/DOC responsibilities for fuel/petrochemical supply under DPA; and participation on NATO National Oil Board Task Group.

### PRODUCTS/ESTIMATED COMPLETION DATE

As required.

### ISSUES AND/OR PROBLEMS

FEMA has constituted an interagency task group on DPA amendments which has received a new mandate to produce a report by April 20, 1982. We are responding to this and GC has drafted proposed legislative changes and OEP has indicated areas that might be reviewed. These suggestions were reviewed with Ron Winkler on April 8, 1982, and will be informally reviewed with FEMA staff on April 12, 1982, prior to submission of a formal DOE position.

Updating DOT's Claimancy Program is awaiting the outcome of the primary projects being pursued with the DOD.

The Defense Energy Action Group was formed after the recent FUELEX-81 exercise to investigate and recommend action warranted in response to several problems which came to light during the exercise. For the most part, there are internal to DOD, but some of them concern energy use and requirements, and DOE is participating on this basis.

## TEST/EXERCISES: FUELEX

### DESCRIPTION

The Studies, Analysis, and Gaming Agency (SAGA) prepares and conducts major political-military energy crisis simulations known as FUELEX, in which DOE, represented by the Office of Energy Emergencies, participates. The purpose of FUELEX is to provide the Department of Defense (DOD) and the civilian (both Government and private) energy community with an understanding of probable defense fuel requirements during an emergency and to have the joint military and civilian teams work within current regulatory, legislative, and policy guidelines to resolve any problems.

### PRODUCTS/ESTIMATED COMPLETION DATE

FUELEX-81 was held during the week of November 16-21, 1981. Out of this exercise came many proposals to improve energy crisis management, within DOD as well as other Government agencies. The Defense Energy Action Group, organized within the DOD Office of Defense Energy, was established to investigate and carry out those proposals. This office has representation on that group, and is prepared to provide written input as requested.

### ISSUES AND/OR PROBLEMS

None.

## REX-82 TESTS

### DESCRIPTION

REX-82 consists of two one-week exercises subtitled ALPHA and BRAVO. ALPHA exercises usually involve a general war scenario during and around the period of an immediate attack. Participation is at the Special Facility of the Federal Emergency Management Agency (FEMA). BRAVO usually involves industrial mobilization considerably before a war and is played at regular duty stations. These exercises are part of a biennial series conducted by FEMA among the Federal Civil Agencies in conjunction with Joint Chiefs of Staff Command post exercises.

The objectives of these exercises are to improve plans and preparedness for Continuity of Government (COG) and civil mobilization.

### PRODUCTS/ESTIMATED COMPLETION DATE

These exercises provide the opportunity for participation by responsible staff. Suggestions for improved energy crisis management also emerge. There are several reports prepared for the exercises, including exercise, control and evaluation plans and after-action reports. The after-action report on ALPHA, which took place March 1-5 this year, will be completed in April. Dates for BRAVO have not yet been determined and will be classified.

### ISSUES AND/OR PROBLEMS

None.

## MOBILIZATION RESPONSE STUDY: ECONOMIC EFFECTS

The purpose of the mobilization response study is to determine whether a given level of military activity is feasible from an energy resource perspective. This analysis would be similar to a military assessment of the Nation's ability to fight and defeat a given opponent. The study will also try to estimate the proportion of available energy which realistically should be allocated to defense activities in war time. Included in this planning effort is an attempt to distinguish between normal and wartime demands for energy and to identify tradeoff alternatives which may be appropriate under energy supply constraints.

The study focuses on the problem of determining the difficulty of satisfying military requirements during a general war -- whatever resources are provided, more is likely to be demanded in order to win the war sooner. An uncontrolled, undirected effort to meet military requirements by shifting energy from civilian to defense functions very possibly could result in an inefficient distribution of energy resources. In the long run, such a situation could adversely affect the Nation's industrial capability for waging general war. Any allocation of resources must be correct and precise to maintain the military forces and the strongest possible industrial base. Therefore, resource planning must be done in a careful and well thought out manner in order to avoid compromising the Nation's basic industrial capacity.

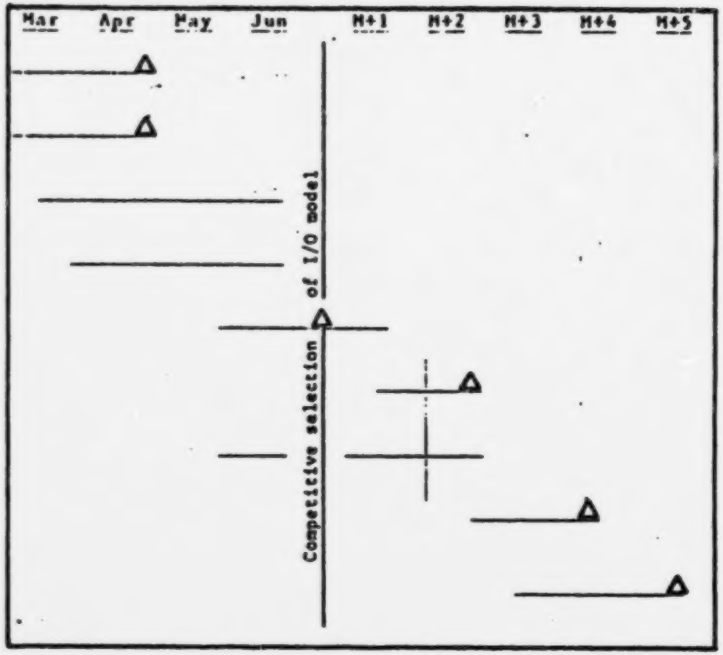
The mobilization response study also provides a national context within which to assess the appropriate level of Defense Production Act (DPA) activities and the importance of possible sabotage threats to utilities. Our long range objective is to relate this project to the regional modeling work conducted by Oak Ridge National Laboratory and thereby link national mobilization impacts to a more regional level of detail.

It has been generally assumed that the gap between supply and demand would be met by a petroleum stockpile (SPR); supply would meet demand. But, what would happen to defense needs and the civilian economy if in the long run some lesser quantity of petroleum were available? Suppose supply does not meet demand at a given price? The evaluation process to analyze the petroleum needs of the defense industrial base involves the development of scenarios for planning civilian support of the military during a national mobilization. These scenarios will examine various levels of mobilization from partial to full to total mobilization. For each scenario, policy options that are available to the government will be analyzed considering the various levels of available petroleum. Policy implications will be presented in a report approximately five months following competitive selection of an Input/Output model.

## MOBILIZATION RESPONSE WORKPLAN
## Project leader: Bill Davis

**Task:**

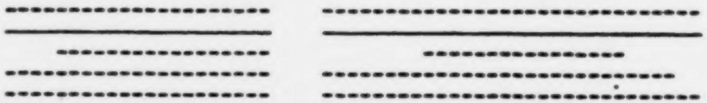
1. Introduction: Describes the purpose and objective of the project (Ch 1)....................
2. Methodology: Develop approach for estimating petroleum demand and industrial output in support of military (Ch 2)....................
3. Scenarios: Develop military demands and assumptions during a national mobilization (Ch 3)....................
4. Policies: Identify options available to the government given various levels of petroleum availability (Ch 3)....................
5. Model: Select analytical tool to evaluate levels of industrial output in an economy to satisfy total demand for a product..........
6. Develop computer modeling capability, bring-up and test system....................
7. Criteria: Establish evaluation criteria to compare scenarios and policy options (Ch 4)....................
8. Simulations: Conduct simulations of scenarios, evaluating policies available to the government (Ch 4)....................
9. Report: Present policy implications by evaluating petroleum requirements of the defense industrial base during a national mobilization (Ch 5)....................



**Manning:**

Full time: —
Part time: ---
Deliverable: Δ

Coplon 0.20 ............
Davis 1.00 ............
Gainor 0.25 ............
Mohr 0.50 ............
Wang 0.10 ............



## ECONOMETRIC MODELING
## REGIONAL CAPABILITIES FOR DEALING WITH SHORTAGES

### DESCRIPTION

The DOE has commissioned a study, being conducted by the Oak Ridge National Laboratory, to develop a system specification for a regional forecasting/impact assessment model which is tailored to the programmatic responsibilities of Emergency Planning. The study is near completion and the final report is expected by the end of April.

### INTRODUCTION

Of the variety of energy related impacts sustained by the U.S. economy during the past decade, changes from disruptions of crude oil supplies may have been the most significant. Impacts of future disruptions will depend upon the abilities of domestic producers and consumers of oil and oil products to substitute other commodities for the curtailed energy products and to sustain the rapid price increases which will occur as energy markets attempt adjustment. The ability of energy consumers to respond may be determined by a variety of region-specific constraints that are not generally incorporated in traditional macro-regional economic modeling procedures.

Severe energy curtailments may threaten the ability of state and local governments to provide adequate emergency services. Prolonged curtailments, with consequent price rises, produce indirect effects through revenue losses to state and local governments. Public expenditures may increase due to increased energy prices and increased demands on social service programs. The private sector may be subjected to similar indirect pressures as well. The loss of real income and the induced substitution actions by consumers may cause rapid downward shifts in the demand for energy intensive commodities. Regions which produce these products will be particularly hard hit because as products demands decrease, layoffs and slowdowns will send ripple effects throughout the regional systems, causing second round impacts in other industries. Ultimately, the economic burden will be much harder on some industries and regions than others.

### ISSUES AND/OR PROBLEMS

The first impact of regional oil curtailments will be transmitted through the petroleum refining and distribution system. The study will survey the existing refining and distribution models to investigate the feasibility of incorporating such models into a comprehensive impact assessment model. Although this task will specifically consider only the refining sector, many of the suggestions will be generalized to apply to other fuel distribution models, e.g., coal and electricity.

Differences in regional composition of economic activity and short-run possibilities for fuel substitutability will affect each regions response to a constraint in petroleum products supply. Additionally, the short-run adjustment of output and employment due to energy curtailments may vary substantially by region. The study will survey the possible approaches to estimate short-term energy demand impacts of petroleum product curtailments with severely rising energy prices.

The final task will summarize the results of the earlier tasks and formulate a development strategy to acquire an analysis capability to meet DOE/EP programmatic requirements. The use of existing models and techniques will be considered the most expedient approach to initially provide a response capability. A development strategy will be outlined with which the full range of capabilities can be provided in an orderly and effitient manner.

Project objectives and approach will be adjusted as necessary after careful review and evaluation of the final report to be submitted by Oak Ridge.

## ECONOMIC EFFECTS OF SUPPY DISRUPTIONS

### DESCRIPTION

A substantial disruption in the supply of petroleum can be expected to cause large, rapid increases in petroleum prices. These price increases have the potential for generating both severe adverse macroeconomic impacts and cases of individual hardship, in the short term, before adequate adjustments are made. In such circumstances, it may be appropriate for the Government to act to provide a macroeconomic stimulus and/or to alleviate undue hardship. This project will examine alternative Federal programs and estimate their effectiveness in providing an economic stimulus and/or reducing perceived hardship.

### PRODUCTS/ESTIMATED COMPLETION DATE

- Literature Search -- May 1, 1982
- Interagency Task Force -- May 15, 1982
- Models/Scenarios -- June 1, 1982
- Equity Analysis -- August 1, 1982
- Efficiency Analysis -- August 1, 1982
- Policy Conclusions/Report -- November 1, 1982
- Mechanisms Analysis -- February 1, 1983
- Option Papers -- March 1, 1983

### ISSUES AND/OR PROBLEMS

(1) What is the likely magnitude of the adverse macroeconomic effects of an oil supply disruption?

(2) Under current tax legislation, what is the net effect of a disruption on Federal revenues and outlays?

(3) What is the nature of the income redistribution likely to result from a disruption?

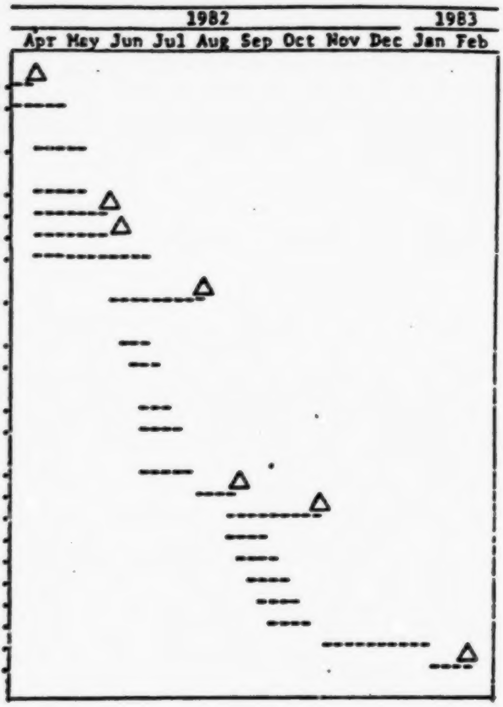
(4) To what extent will severe hardship, as perceived by the American public, be experienced?

(5) What are the options available for providing an economic stimulus, and how effective is each?

(6) What measures are available for addressing individual hardship, and how effective is each?

(7) Wnat should be the respective roles of the Federal, State, and local Governments in designing and administering programs to address hardship?

## ANALYSIS OF EFFECT AND RESPONSES TO OIL DISRUPTION



1. Statement of problem/purpose
2. Literature search
3. Organize interagency task force
4. Identify/obtain contractor support
5. Identify/obtain models
6. Develop scenarios
7. Notice of inquiry
8/9 Equity Analysis/Efficiency analysis
    - a. Politico/economic philosophies?
    - b. Goals/objectives?
    - c. Government role given scenarios?
    - d. Policy options?
    - e. Impact of policies on objectives?
10. Conclusions on policies
11. Mechanisms analysis
    - a. Implementation cost
    - b. Cost
    - c. Timing
    - d. Efficiency
    - e. Benefit cost
12. Notice of inquiry
13. Options paper

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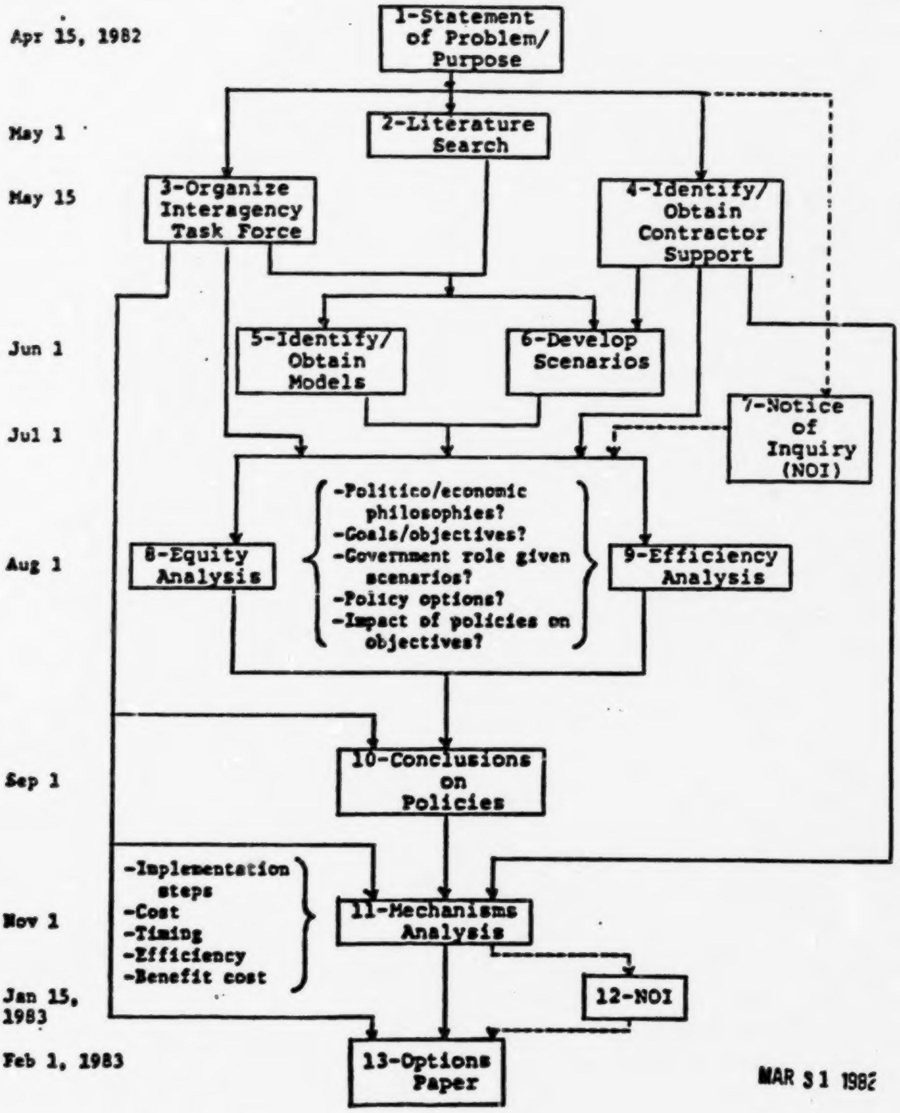
ANALYSIS OF EFFECTS AND RESPONSES TO OIL DISRUPTION


Apr 15, 1982
1-Statement of Problem/ Purpose
May 1
2-Literature Search
May 15
3-Organize Interagency Task Force
4-Identify/ Obtain Contractor Support
Jun 1
5-Identify/ Obtain Models
6-Develop Scenarios
Jul 1
7-Notice of Inquiry (NOI)
Aug 1
8-Equity Analysis
-Politico/economic philosophies?
-Goals/objectives?
-Government role given scenarios?
-Policy options?
-Impact of policies on objectives?
9-Efficiency Analysis
Sep 1
10-Conclusions on Policies
-Implementation steps
-Cost
-Timing
-Efficiency
-Benefit cost
Nov 1
11-Mechanisms Analysis
Jan 15, 1983
12-NOI
Feb 1, 1983
13-Options Paper

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## MANAGEMENT OPERATING PROCEDURES

### DESCRIPTION

The Plans Development and Testing Division and the National Security and Continuity of Government Branch are coordinating the development of standard operating procedures and suitable operation facilities for EP and DOE management of energy emergencies. There are two aspects to this project: codification of the operating procedures of DOE and external entities (Federal, State, local, and private sector) in the management of energy emergencies; and the design, development, and installation of operations support systems (equipment, communications, and space) to assist the managers in their decision-making during energy emergencies. Internal EE procedures will be developed first. Then a DOE task force will be established under EE direction to codify the department-wide procedures for all types of fuel-related energy emergencies. The final product will be the establishment of operating facilities and a handbook of standard operating procedures.

### PRODUCTS/ESTIMATED COMPLETION DATES

- Interim procedures/operations support systems description for EE in a generalized energy emergency. (May 21, 1982)
- DOE-wide task force established to codify departmental responsibilities and procedures for energy emergency management. (June 11, 1982)
- Support system specifications/paperwork completed. Reference file compilation initiated. Space for support staff identified. (June 11, 1982)
- Duty desks in Room GA-257 becomes operational with minimum equipment. (June 30, 1982)
- Handbook of procedures submitted for department-wide clearance. (September 17, 1982)
- Final handbook containing a complete set of DOE-wide procedures and instructions on the use of all support systems for DOE management of energy emergencies. (October 22, 1982)

### ISSUES AND/OR PROBLEMS

- In order for this effort to be successful and for the resulting procedures to reflect accurately the management operation of the department in an energy emergency, the task force will have to consist of individuals who are cognizant of their organizations' roles in an emergency and who have the highest level support of their management in this effort.
- Acquisition of additional space in the Forrestal Building could be a problem.

[Whereupon, at 1:05 p.m., the subcommittee was adjourned.]

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